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SECURITY AND DEVELOPMENT ASSISTANCE

HEARINGS

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UNITED STATES SENATE

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FOREIGN ASSISTANCE AND STATE DEPARTMENT AUTHORIZATION BILLS

TUESDAY, FEBRUARY 24, 1987

U.S. SENATE,
COMMITTEE ON FOREIGN RELATIONS,
Washington, DC.

The committee met at 10:04 a.m., in room SD–419, Dirksen Senate Office Building, Hon. Claiborne Pell (chairman of the committee) presiding.

Present: Senators Pell, Sarbanes, Dodd, Kerry, Simon, Sanford, Moynihan, Helms, Lugar, Kassebaum, Boschwitz, Pressler, Trible, Evans, and McConnell.

The CHAIRMAN. The Committee on Foreign Relations will come to order.

It is a great pleasure to welcome the Secretary of State, Mr. Shultz, here.

A few days ago, Mr. Secretary, in testimony before the House Foreign Affairs Committee, you referred to congressionally mandated cuts in foreign aid which were drastic and indiscriminate, and which had forced the United States to play Russian roulette as we shortchange our various foreign policy interests.

While I concur in your judgment that important national security interests dictate that we maintain a reasonable foreign assistance level, it is also clear that judicious reductions will have to be made in that request before us if we are to meet the deficit reduction targets required under the Gramm-Rudman-Hollings amendment.

The difficulty we face is plain to see. The administration's budget presented to Congress last month would increase overall foreign aid by over 13 percent, while U.S. contributions to the multilateral development banks would nearly double.

Meanwhile, the budget for the State Department, USIA, and the Board for International Broadcasting would also increase substantially.

The fact is it will not be possible to accommodate those increases when the rest of the Federal budget will be subject to Draconian cuts.

If preliminary deficit estimates hold, we will need to find budget reductions this year of about $60 billion, and strict adherence to the Gramm-Rudman-Hollings procedures would mean, alas, across-the-board reductions of more than 5 percent.

In this context, increases in foreign aid and the State Department budget will be very hard to sustain.

Over the coming weeks, I hope the committee and the administration will engage in a dialog that permits some compromise to emerge, a compromise that provides for the funding of our most essential security and humanitarian programs and that permits us to maintain key consulates and Embassies abroad at full operational levels.

Personally, too, I would like to see the developmental and humanitarian side increase and the security side decrease.

In the course of this dialog, we will have to establish priorities in order to impose reductions where they do the least damage.

As the Secretary knows, and as a "graduate" of the Foreign Service, I have the greatest sympathy for his objective and the truly underlying importance of maintaining our first line of defense, the Foreign Service, at its maximum potential.

Senator Helms, do you have an opening statement?

Senator **HELMS**. Mr. Chairman, thank you very much.

Mr. Secretary, I, of course, join with the distinguished chairman in welcoming you to this hearing on the administration's budget request for the foreign affairs agencies.

I want to be helpful to the Department in its desire to maintain a high-quality, effective American diplomacy. But I find it difficult to support your request for a 17-percent increase in the Department of State's nonsecurity salaries and expenses and need to be convinced that you have exhausted all means of maintaining an effective foreign policy at lower cost before I can consider supporting such an increase.

In all candor and friendliness, I don't believe your Department has really done so.

For instance, there are many who believe that FSO tours abroad are too short. They average about 2 years at State, while AID and USIA officers have much longer tours. By raising the average FSO tour to 3 years, for example, you could save about $20 million a year in transfer costs and reduce the number of personnel officers, transportation and travel specialists, and other employees whose work supports these transfers.

At the same time, I believe you could make a major contribution to improving the quality of Foreign Service reporting and analysis. The 1988 request calls for tens of millions of dollars more to improve the reporting and analysis at the State Department, but the problem is not a lack of personnel.

The real problem is that, with an average tour of duty of only 2 years, the typical officer at State has only a year's experience in his present job. They do not understand the country about which they are reporting and analyzing.

Now, it seems to me that if AID and USIA officers are willing to accept 3- or 4-year tours, even at hardship posts, then we should expect the same dedication and service discipline from State officers.

Other savings could result from better decisionmaking in the State M or Management Section.

Last year, I was astonished, Mr. Secretary, when high State Department officers told my staff that they were spending $180,000 a year to provide an apartment to just one of the senior FSO's in

New York and thousands to buy furniture because he had just gotten himself divorced and didn't want to buy his own.

Now, to top it off, the State Department was spending $20,000 a year to provide him with a full-time maid because he no longer had anyone to make up his bed for him.

Now, allowances and other benefits for the senior Foreign Service officers have been drastically increased since 1983.

In response to questions that I submitted, the State Department told me that hundreds of State Department officials now travel, with their families at times, by first class at all times.

The Department told me in writing that this is for security reasons. I had not known prior to this time that terrorists work only in the tourist sections of airplanes.

Finally, Mr. Secretary, without any consultation with this committee, the Department, by administrative action, raised the maximum salary and post differential payable to Ambassadors and other Foreign Service officers to $100 less than a Cabinet officer receives.

In 1985, 1 out of every 11 FSO's at the State Department earned more than the Under Secretaries at the other Cabinet Departments and more than the chairman of this committee or any other congressional committee.

While the Department is claiming to make what it calls "Draconian cuts" in its expenses, it seems to me to have decided that cuts, benefits, and prerogatives for senior officials are impossible.

But to return to the rules in effect in 1982, when you took office, Mr. Secretary, would save millions of dollars.

There are other issues that need to be looked into more deeply. I do not expect you to spend your time dealing with these issues. But I do have, frankly, the impression that there are problems in your Department that need qualified attention.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Mr. Shultz, Secretary of State, we are very glad you are with us.

STATEMENT OF HON. GEORGE P. SHULTZ, SECRETARY OF STATE

Secretary SHULTZ. Thank you, Mr. Chairman, members of the committee.

I feel confident that you will want to support the President's full request, especially after these friendly introductory comments that have been made. [General laughter.]

Mr. Chairman, what I would like to do, if I could, is submit to you my full statement for the record——

The CHAIRMAN. It will be printed in full in the record.

Secretary SHULTZ [continuing]. And talk to you directly about my concerns about the level of resources being allocated by the Congress for international affairs.

I would like to describe to you how the overall picture has evolved and state what seems to me are the purposes of this money, so that we can examine the consequences of not providing it.

In a broad sense, you can see on this chart—indicating—what has happened.

You can see that in fiscal year 1985, roughly $22.9 billion was appropriated, or around $23 billion. That is the actual appropriated level.

In 1986, that was slightly above $19 billion—indicating. That is a pretty big cut.

In the year in which we are now operating, in the continuing resolution, the 150 account—State Department operations, security assistance, economic assistance of various kinds, USIA, the Export-Import Bank, everything—was $17.3 billion, and the President has requested a supplemental.

In the chart that you see, that is represented by the little yellow bar. We believe there are important emergency needs to justify that supplemental.

In fiscal year 1988, the request is $19.9 billion. That number, in terms of appropriated funds, shifts around because of the netting out of various things that are not in a sense policy-sensitive.

That gives you the broad picture, that we have seen a drastic reduction over the last 3 years in the amount of money allocated to this function.

That reduction is magnified by three factors.

The first is that, while, fortunately, as we review the past 4 or 5 years, we see a drastic reduction in the rate of inflation—and I think we can all be quite proud and happy about that. Nevertheless, there has been some inflation. So the real numbers, so to speak, are not as great as the nominal numbers. In other words, the decline is a little steeper than it looks.

Second, within that total, there is a certain block of it that is earmarked, or virtually earmarked. It does not change. I am not arguing that it should change, but am just observing that it does not change.

So, when you have a reduction of, say, 20 percent or so, whatever percentage, off the top, and you have a block that is fixed, then everything else just gets squeezed very, very hard, necessarily. It is just arithmetic.

That is what has happened to us.

Finally, the cross rates of the dollar with the yen and the currencies of leading European countries have changed drastically during this period. So, from the standpoint of how far the dollars go, it has changed very, very greatly. I think, if you talk to your friend, Mike Mansfield, about his operations in Japan, you would see the results of that.

So, my point is that there have been drastic reductions in the real resources that are allocated by the Congress to the conduct of our international affairs.

When you speak about how I justify an increase, you see, that is not my mental set. What I am struggling with is a drastic decrease, and trying to get my head above water again.

So I hope very much that the Congress will support the full request for funds that the President has made.

As I have come to experience the budget process in this round of service in the Government, I see that it is very different from what it used to be when I served here before. There is a tremendous impact of the Budget Committee and its initial mark, which, I guess, will be made in about 3 or 4 weeks or so.

Once that Budget Committee cuts your throat, you can't breathe anymore, and you struggle around to allocate within some drastically reduced total. But you have had it.

So, the most important decision that is made is made by that Budget Committee when it takes this well over $1 trillion and slices it up.

While members of the Budget Committee are knowledgeable about foreign affairs—and I've talked to them, and they are very interested and broadly sympathetic—nevertheless they necessarily have to focus on these numbers.

So, I come before you as the committee of the Senate that is charged by your colleagues with having an overall look. There is not any other committee that takes an overall look, from Voice of America to State Department operations to security assistance to economic assistance.

Give me hell, the way you have been doing, but let's work on this. You are the primary committee of jurisdiction here. I understand the overall budget problem; it is a terrific problem. Nevertheless, we have some important issues here, and if you feel these funds are justified, I hope you will let the Budget Committee know what your views are. I think you have a responsibility to do that.

Of course, if you think that it doesn't matter, then let them know that.

But the decision which they are going to make in 3 or 4 weeks is the ball game. Then, of course, there are all sorts of issues in the appropriations process, and all kinds of managerial problems, such as Senator Helms brought up, which we have to look at, work at, scratch around with. We have to try to save money. We have to do that, no matter what.

But that is where the focus is, in the overall number.

Now, I would like just to express to you my sense of what this money goes for.

What are we trying to achieve as Americans for our country by these resources?

I have come to think that the term "foreign aid" is a term that gives the wrong sense. It gives the impression that what we are talking about is money that we appropriate and provide to other countries to help them.

This is not my image of it at all.

My image of it is that these are resources that we use to help us serve our interests as we see them around the world. It is U.S. aid.

I think we need to have that point of view.

It was brought home to me in a little incident that happened to me a few years ago, which I may have mentioned to some of you. There was one of those big globes that spins around that used to be in the office that I had. So, when a new Ambassador would come, I would talk to him before he went off to his or her post. At the end, I would say, "Well, Mr. Ambassador, you have one more test to pass before you can go. I know you have been nominated and have passed the Senate, but I have a little quiz. You have to show me that you can point out on the globe where your country is."

So, they all dutifully would go and spin the globe around and point to where they were going.

One day, Mike Mansfield was in. We have all known Mike for many, many years, and I have since I was here before. When we got through, I said, "Well, Mike, I have this little test that I give and I have to give it impartially to you, too."

So, I said, "Show me where your country is."

Mike spun the globe around and he put his hand on the United States, and he said, "That's my country."

That's the attitude that we have to have. That is our country and that is what these resources are for. So let's examine them from that point of view.

Now, here is what they are for as I see it.

First of all, we have to judge these resources for their usefulness for the security of the United States.

We have the largest economy in the world by far, twice as large as that which is the next biggest, maybe more than that. We have interests all over the world.

What happens is important to our citizens, and our security is affected by what happens.

There is no way that we could serve those interests adequately if we just tried to do it all by ourselves. We need friends and we need allies.

Fortunately, there are lots of them that have, broadly, the same point of view that we do.

So, through our diplomacy and through our efforts, we work with our friends and our allies, and we have a stake in their capability, with their forces. We have a stake in our ability to homeport our ships, to have access to bases, to put planes on them, to have people stationed there, to be able to know that we can land there in an emergency and so on. And we have, of course, quite a few countries where such facilities are provided, and the country involved pays the bill, basically.

But there are others where they cannot do it. And so, we have negotiations for base rights—with Spain, with Portugal, with Greece, with Turkey, with the Philippines. These bases are very important to us. That is my sense of it. But, if you had the chairman of the Joint Chiefs of Staff here, I am sure that he would pound the table very hard on the importance of these assets to us.

Therefore, when we negotiate with countries whose incomes are low and whose abilities to develop their forces are low, and they agree, "Yes, we will provide these bases" or in one way or another we will work out an arrangement for their use, and we agree on our side that we will use our best efforts to provide funds that will help their security and give economic support for a healthy environment around those bases, that serves the security interests of the United States.

Mr. Chairman, with these cuts, we are not able, in some cases by a long stretch, to live up to what we undertook our best efforts to get.

And it matters.

That is No. 1, the security interests of the United States.

We provided well for Mrs. Aquino's efforts in the Philippines with economic support. But we had to cut $50 million. We had to cut in half what we provided to help her develop her military. We are trying to restore most of that in the supplemental. But that was the wrong thing to do.

She has a major Communist insurgency problem on her hands. What she inherited by way of a military force was poor. She has made some very important strides in reforming that.

That is an example of cutting out on something in the military and security area that is against her interests, but it is also against our interests.

Now, I think the second thing of which we have to be thinking is the prosperity of the United States. We are interested in jobs, in our standard of living.

It may have been true at one time, although just barely so, that the United States was so big, so loaded with resources that, essentially, it could operate in a self-contained way. I don't believe that was ever truly the case. But it certainly is not the case today.

We are the biggest economy. But we are also heavily involved in what goes on in the world economy, and it affects us.

So, we have a big stake in a healthy world economy—a big stake.

So, to address that stake, we try to give assistance to individual countries that are important to us and which seem to be on a track that we think is a good track, economically, and a promising one.

We try to give assistance to the multilateral lending banks, where our money is multiplied by the contributions of others. We know we are struggling with big problems. The debt problem is a huge and difficult one.

The President has come up with a program, known as the Baker plan, and it has been well received. By and large, when people look at it, they say they don't see quite what else could be done. It calls for some difficult economic restructuring on the part of countries, and it has some things to say about the commercial banks.

It has a role, an invigorated and tough role for the World Bank and the other multinational institutions.

In this bloodletting here, we have cut drastically into the resources that we are providing to the international financial institutions—just as we are trying to use them to help promote conditions that will be good for our prosperity.

Certainly it will be good for others, too. But for us—let's think about us.

Then I think we have a big stake in seeing our values be represented around the world—in part because, if we think people have a chance to live in freedom and under the rule of law, that is good for them.

But, in this tiny world that we live in, it is good for us, because those countries are not going to be the kind of countries that join up with those who are aggressive against our values and our interests.

So, we do have a stake, and we can take some comfort and satisfaction from the fact that there has been a movement, both on the political side and on the economic side in recent years toward freedom, toward democracy, toward a more open approach to economic development.

We want to promote those objectives, for, among other reasons, they are good for us. They help our economy. They help our security.

And so, these resources need to be judged by that.

Then there are things that are essential to a civilized world and to countering problems in our society, such as terrorism and drugs. And these two scourges are all too often linked together, where the drug traffickers provide the money and the terrorists provide the muscle. We see it dramatically in the Andean countries right now.

We need to address ourselves to those problems, and we have programs to do that, programs that protect us, that have been effective in crop eradication and in interdiction, and in coping with terrorism.

Certainly the problems are great, and we are a long way from getting there. But we have seen enough and have enough sense to know that we are on the right track, and that we need to work at it and that we need to have the resources to do so.

That is what this is about.

Finally, I would say—and this is not so much in this budget, but it tends to come about when a tragedy somewhere around the world takes place—when there is a drought or famine in Africa, this country responds to it, perhaps more than any other country in the world.

When there is an earthquake in Mexico or El Salvador or elsewhere, this country responds to it.

There is a generous and humanitarian streak in the American people, and, frankly, I am proud of it. And I think it probably goes back to the old tradition where if your neighbor's barn burned down, everybody pitched in and tried to get it back up.

There is nothing wrong with that.

But I am not here pleading for resources in that spirit. I am trying to call your attention to the very hardheaded sense in which I think these resources are used for the interests of the United States and should be judged that way.

So, Mr. Chairman, you can see that I am pretty worked up about this problem. I think it is our biggest foreign policy problem, that is, the need for adequate resources to do the things that we need to do.

I want to work with the Congress, with this committee, with your counterpart in the House, with the Budget Committee, the Appropriations Committee, with anybody who will listen. I am perfectly willing to admit that there is lots you can criticize and that we need to work on problems. God knows, I have been trying to do so.

But I do think that the cuts that have been sustained since 1985 have gone too far, and that the country will be well served by supporting the level of resources that the President has asked for in his budget—recognizing that we will probably have some arguments about the allocation within such a total and that there is constant need to look at our administrative practices and various things in order to make the most out of these funds.

So, Mr. Chairman, I appreciate your listening to this statement of a personal point of view. At the same time, I have a more formal, round-the-world statement, that I have put on file with you.

Thank you, sir.

[The prepared statement of Secretary Shultz may be found in the appendix.]

The CHAIRMAN. I thank you very much, Mr. Secretary.

I think we all understand the intensity and depth of your feelings.

I think we had better proceed with the 10-minute rule, so that we will all have a chance to talk with the Secretary.

I will begin, if I may.

I don't think the general public has any concept of the relatively small amount that is spent on Foreign Service establishments, salaries, et cetera. What would be the percentage of the total foreign affairs budget that would be spent on that?

Secretary SHULTZ. On salaries and expense?

The CHAIRMAN. And on the upkeep costs of the buildings.

Secretary SHULTZ. Well, the State Department budget, just the salaries and expenses part, is about $1.3 billion, all together, for that particular account. So it is a small part.

State Department numbers at a typical U.S. mission abroad are something less than 30 percent of the total.

The CHAIRMAN. I will come to that in a moment.

My point is what is the percentage that is used for the maintenance of the Foreign Service, the payment of the salaries and the upkeep of the buildings? I think it is about 2 percent or something of that sort.

What is the exact percentage?

Secretary SHULTZ. Of the total 150 account, I think it is a larger number than that. But I will get you the exact percentage.

The CHAIRMAN. My point is that it is just a small number.

Secretary SHULTZ. We have a capital building program stemming from the Inman Committee Report for making our buildings more secure, in many cases having to relocate and build new buildings, because the site they are on simply does not meet the security requirements of the day, both physical security and counterintelligence security. So there is a major program. That, I think, should be thought of as over and above the continuing operating costs.

The CHAIRMAN. But if you take the total costs to the taxpayer of money for foreign affairs, including military assistance, economic assistance, developmental assistance—everything—I had thought that the amount the State Department spends on itself as the first line of defense, or offense, whatever you want, is about 3 or 4 percent. Isn't it?

Secretary SHULTZ. I think that is lower than it is. I think it is more than that.

The CHAIRMAN. Then is it about 6 or 7 percent?

Secretary SHULTZ. Around 7.5 percent says my numerical specialist, my assistant.

The CHAIRMAN. Of that 7.5 percent, only 30 percent of it directly impacts on State Department personnel. The rest comes from other agencies.

Would that not be correct?

Secretary SHULTZ. Well, we are the hotel keeper. That is, our responsibility is to manage the physical arrangements and the communication system and provide for the security and all of that. So, the amount that we spend on what we are there for, for representation, or for consular services, and to find out what is going on and to analyze it and report it and all of that, is, of course, smaller than what the State Department total personnel is, because of these other duties.

The **Chairman**. Mr. Secretary, in your testimony before the House—and I mentioned it in my statement—you stated that drastic budget reductions have forced the United States to play Russian roulette.

My understanding, though, is that the foreign aid has increased by 82 percent since 1981, from $7 to $12.8 billion; and, within that increase, security assistance has grown very substantially. I think the military assistance program is up 700 percent, and FMS up over 30 percent, with the economic support fund, or ESF, up nearly 70 percent.

I don't quite understand how we are shortchanging our friends and allies when the figures have gone up so much in these last 5 or 6 years.

Could you elucidate that point?

Secretary **Shultz**. Well, I think the needs are there, and they have been recognized, and were increasingly so until we got to fiscal 1985. Then you can see what has happened.

But there have been large increases in many of the accounts, and I think a recognition.

I know your reluctance about security assistance. But I think the facts are that in many of these countries, where there is a guerrilla, often Communist-based guerrilla, movement, unless that country has adequate support for its military capability, your ability to have the kind of law and order needed for economic development just cannot be put there.

That is a realistic thing that you have to recognize.

We have looked at it in El Salvador. I mentioned the Philippines. And, of course, our base rights countries, our NATO allies, have their needs.

A large part, some of the increase in the total is due to increases for Israel and Egypt, which we all support. But that is where it comes from.

The **Chairman**. I think the automatic approval of these increases will probably have to be examined pretty carefully by the committee.

Let me turn now to another subject—drugs.

Among the effects of the budget cuts recently were, as you said, that they hamper our war on drug traffickers. And yet, is it not the case that the Congress last year provided a substantial increase in funding for the international narcotics programs, and this year I believe your request actually cuts it back by $20 million. Am I incorrect on that?

Secretary **Shultz**. Last year, funds were added to that program, and we welcomed that. That was a well-funded effort. We believe that that should be continued, and the request does continue to fund that effort strongly.

But here is the problem.

The antinarcotics money is devoted to such things as crop eradication, or helping with the process of interdiction, and so on—

things that are directly related to the drug trade and the drug running.

Now, if we are going to be effective in country X, whatever that is, which often is not very well heeled in terms of its own resources, you have to do more than that. You have to help them see their way to provide an alternative, because raising and processing and trafficking in drugs is tremendously profitable.

So, you have to find alternative crops and alternative ways of making a living and help the country to do that.

It is just astonishing, the amounts of money involved in the drug trafficking business.

I had a little long weekend in the Bahamas which was devoted mainly to relaxing. But I took the time, as I always do, to spend some time with our outstanding Ambassador there to hear what she is doing and to visit around.

Last year, our efforts and the DEA's efforts, which are very strong in the Bahamas—it is a transit point—led us to lay hands on, cooperatively with them, 3 billion dollars' worth of cocaine—3 billion dollars' worth.

The sums of money and the corruption that go with it are amazing.

So we have to work on it, and we have to do more than just do these interdiction things, as important as they are.

The CHAIRMAN. Then why cut the Narcotics Control Program by $20 million?

Secretary SHULTZ. I believe that the 1987 amount included a onetime purchase of equipment, that need not be duplicated year after year, amounting to some $21 million.

The CHAIRMAN. Would that be airplanes and things of that sort?

Secretary SHULTZ. Yes.

So, if you say they needed that equipment, they bought it. They have it now, and they don't have to keep buying it year after year. So you basically go along with the rest of the program, which is stepped up, as a result, I think, of the very strong effort that the Congress and the President joined in last year.

But it is a big, big problem.

The CHAIRMAN. I concur with you, too, about the situation in the Bahamas. I remember going on an antidrug patrol, a Coast Guard patrol, and seeing the planes of the drug runners which had foundered in that part of the world. There were a lot of them.

I see that my time has expired.

Senator Helms.

Senator HELMS. Thank you, Mr. Chairman.

Mr. Secretary, I have been listening to you this morning and have been wondering how we could have eliminated the confusion on figures, the understanding. Perhaps you would want to retort to my opening statement and the details of that.

I have come to at least the tentative conclusion that a lot of people in the Senate—not necessarily on this committee, but in the Senate—so often feel that they have been invited to the crash landing on these things but never invited to the takeoff. Perhaps I ought not even be suggesting this in public, but a lot of these details could be worked out, and a lot of the perceptions, perhaps, could be worked out.

Now, let me be candid with you.

I have the impression that anytime I raise a question—and other Senators feel the same way—about a specific matter, it is fired back up here and it is said "get off my back."

Now, maybe there is nothing to this diplomat in New York. Maybe we ought to pay $20,000 for his maid, or the taxpayers should.

But these are things that ought to be examined somewhere before we get to this forum, where you are not able to answer specifically without asking your aide, and even the chairman did not know the figures himself.

I hope I am making myself clear, that I am not being critical of you nor of him nor of anybody else. But maybe there ought to be some discussion of the details.

It is not enough for me to hear someone say that 4 percent of the budget is not enough or it is all right for extravagances. When you were talking, I wrote down two figures—$1.3 billion and $2 billion—and I still don't know which is which.

Then you came up with 7.5 percent.

The point is if you want to look at the chart, your chart and your presentation both focus exclusively on the level of funding in fiscal year 1986, and thereafter.

Isn't that right?

Secretary Shultz. 1985, sir.

Senator Helms. Oh. OK.

But if you look back in the somewhat longer context, since 1982, the funding for State Department operations, excluding security, has increased by 50 percent.

Surely, that is a rate of increase greater than inflation. Then it becomes a matter of subjective as well as objective analysis of what the priorities should be.

I submit, sir, that there can be better communication and a different kind of communication between some of your subordinates.

Secretary Shultz. Senator, if I could just comment——

Senator Helms [continuing]. Sure.

Secretary Shultz. I would like to say to you that I am dedicated to the kind of system that we have, that involves a consultative and cooperative arrangement between the executive branch and the congressional branch of this Government.

I have felt that way throughout all of the time that I have been a member of the Cabinet, which is some 10 years. And I am ready to sit down with Members of the Congress any time. I spend most of my time testifying these days, I think.

But I think the informal exchanges that we have and the individual sessions—and I have sought out, as you know, chances to visit individually with different Senators, one by one, or in small groups, to go over these things. I will insist with my staff——

Senator Helms. I understand what you are saying.

Secretary Shultz [continuing]. That they come and be responsive, and that we look at these things.

Oftentimes, as you point out, it is little things that kind of drive people crazy, which we need to get squared away as best we can. And I want to do that.

I am not saying that everything is perfect. It could not possibly be in such a big thing. And we want to keep trying to get it that way.

But I am worried that the cuts have been so drastic. When you go from around $23 billion to a little over $17 billion, in that little bit of time, with the other factors that I have mentioned, boy, you have hit it.

Senator HELMS. Well, Mr. Secretary, with all of the civility that I possess, you have made that speech one time, and it was worthy of hearing. But let me get back to what I was referring to at the outset.

You remember the back and forth that we had on the IG matter. After the Congress set that up, it took over a year before we could get anybody to abide by the law as it was written and as it was passed.

Secretary SHULTZ. Well, Senator, on the IG matter, we set out to do that exactly as was specified. We went to the OMB, we obtained nominations from them, they gave us three names, we interviewed the three names, we selected one who had wide experience, who had had experience in the State Department. People raised objections to that. We went through that. We pursued that properly and energetically.

John Whitehead made a personal effort, and we went about that the right way, I think.

Senator HELMS. Well, you ended up with a Foreign Service officer in charge—that was your selection—and these laws clearly said independent.

Secretary SHULTZ. No, sir.

This man, the man that we selected for that particular IG function was a completely independent person.

I do think that it is important in the management of an organization—State Department or any other organization—to have a process of internal audit.

When I was involved in direct management myself, or on the boards of private corporations, we found the internal audit function to be an essential one. I think we should do that, and we do do that. I have worked on it and have developed it because I have seen it work in private industry.

I think it is doing a good service for us and we are improving the managerial techniques, so to speak, of the Department as a result.

Senator HELMS. Another example: you made a proposal some time back for an official residence, a permanent residence, for the Secretary of State.

Secretary SHULTZ. Yes, sir.

Senator HELMS. I was under the impression that the administration supported this, that it had been cleared and all the rest of it.

Secretary SHULTZ. Senator, I discussed that with the President on a number of occasions, and he agreed with my analysis and told me to go ahead. In spite of the fact that there is authority to raise funds for such purposes, I felt that I should not do a thing until I was sure that the Congress would support such a move.

So, I have been in the process of consultation with Members of Congress about it. That is where the matter stands.

But I think it would be a good thing for the Government. I say that, and, as you know, I have said, up front, that there is no way I would ever live in such a residence. So it has nothing to do with me.

The CHAIRMAN. I would interpolate to say that I went to your residence, and I must say I concur with what you said and support it.

Senator HELMS. Nevertheless, I know you are stating it exactly as you believe it to be, and perhaps it is. But, I have a letter here from the White House dated February 23 which says, "The Secretary has reported that he had discussed this matter with the President and some on the White House staff. I have checked with several of my colleagues here in the White House. None of us, including the Chief of Staff, is aware of any Presidential directive regarding the Secretary's request for an official residence."

Then it goes on to say that $1.6 million would be needed for the construction of a 7,000-square-foot residence. "I am aware of no other Cabinet members who are seeking residences or who intend to do so." And it goes on and on.

Maybe this ought to be made a part of the record.

The CHAIRMAN. Without objection, it will be put into the record.

[The information referred to appears in the appendix.]

Secretary SHULTZ. I don't know who the letter is from, Senator. Who is the letter from?

Senator HELMS. The letter is from Alfred H. Keehan.

Secretary SHULTZ. I don't work for him, Senator. I work for the President. And I talked to the President, and the President gave me a green light. I have then gone and consulted with Members of the Congress.

That is what I am doing, and I think that is the way to do it. If Members of the Congress don't want to have it happen, it won't happen. You can be sure of that.

Senator HELMS. Well, as one who, because of the situation, has been unable to meet with you twice recently——

Secretary SHULTZ. That's not my fault.

Senator HELMS. That's correct. That's the point I'm making. Nevertheless, nobody has ever asked me about this. I don't know what other committee members have been asked or other Senators.

Secretary SHULTZ. What I have done, Senator, is I have talked to a number of people. I invited to my house for breakfast last year the chairman and ranking member of House and Senate committees on both appropriations; that is, the ones that look after the State Department and the Foreign Relations accounts. A number came.

The reason for this proposal has to do almost entirely with security.

I observe the following things.

I have a house that I bought when I came here and will sell as soon as I get through. As soon as you all have enough of me, I won't hang around Washington. You can be sure of that.

Senator HELMS. We agree on that.

Secretary SHULTZ. Yes, sir. You can get rid of me real fast, Senator.

Senator HELMS. Oh, I'm talking about getting rid of me, too. I'm not going to stay here, either. [General laughter.]

Secretary SHULTZ. Well, I bought a house that is a perfectly fine house, as far as my wife and I are concerned. It has enough space for our children to come when they come one at a time. [General laughter.]

It is perfectly adequate. We have no problems.

However, I'm sorry to say that the Secretary of State of the United States, whoever that person is, is a target. And so, there is a lot of effort made to give protection.

I don't particularly like to live where I have no privacy at all. Even our letters that come to our home, we don't even open; somebody else opens to them be sure there is not a bomb in them.

Well, that's all right with me. That is the way we live.

What this means is that they are going to try to put security around your house, and there are other people there. You have to have a house where the people who are providing the security can be. They have to have a place where they can sit, make coffee, and put their communications gear into operation, plug it in so that it stays going, and so on. And they try to make your house secure.

It costs money to do that. I have asked them how much and I have seen various estimates of how much. It is quite a lot.

Then, when I leave, they have to disassemble that and they have to put it in the home of whomever the next person is.

They look at the house I've got and say how can they secure it, particularly when a head of state comes to have breakfast with me, or a cookout there, as many do—and we are glad to have them. My wife cooks it up and they like it and it is good.

But it drives the security people crazy because it is in a little neighborhood and people can sit in windows all over the place. They have no way to cope with that. It just is not a secure environment.

So, that has led me to think that there should be a residence for the Secretary of State that is chosen mainly with security considerations in mind. There are certain characteristics that that calls for. And then the Government can do a proper job of installing the security arrangements, the counterintelligence, the telephone, the secure telephone, and so on, and do it once, do it right, and then be done with it. You won't have to keep spending that money.

That is where I am coming from.

I think it is a worthwhile purpose.

I don't have anything more to say except that, personally, I think there are other Cabinet members who have the same kind of problem. But the Secretary of State has it in spades, unfortunately. So I have to think about it from that standpoint.

That is why I have made that proposal, and I think the Congress ought to go along with it, frankly. It would save you money.

The CHAIRMAN. Thank you very much.

Senator Simon.

Senator SIMON. Thank you, Mr. Chairman.

Mr. Secretary, first, just on the overall budget——

Secretary SHULTZ. May I say just one more thing?

On this proposal, Senator——

Senator HELMS. I'm sorry I brought it up. [General laughter.]

Secretary **Shultz** [continuing]. What I am proposing is that you let me try to obtain this at no expense to the Government; to find somebody who has a house that they would like to donate, or to get some people, enough of them so that you are not obligated to any one person, to contribute some funds so that a house can be bought and endowed and you don't have to say that it is coming out of these appropriated funds.

Excuse me, Senator Simon.

Senator **Helms**. Well, there are implications. We can discuss it later, Mr. Secretary. Thank you very much.

The **Chairman**. Senator Simon.

Senator **Simon**. I am in favor of your house, Mr. Secretary.

Secretary **Shultz**. Oh, it's not my house. I will never live in it. I won't have anything to do with it.

Senator **Simon**. I mean your "house project."

Senator **Boschwitz**. What is the approximate cost of this proposal?

Senator **Simon**. I hope this is not coming out of my time, now.

The **Chairman**. This is not on Senator Simon's time now.

Senator **Simon**. I hate to interrupt my colleague from Minnesota——

Senator **Boschwitz**. That's all right. Go ahead.

Senator **Simon** [continuing]. But as I look at the budget request and where we have been over the past years, I recognize that it is easy whether it is the Simon family budget or the State Department budget that things creep up and we lose site of the overall picture.

Development assistance for fiscal year 1981 was $1.976 billion. The development assistance request for fiscal year 1988 is $2.012 billion.

Security assistance has gone from $5.443 to $9.406 billion.

There is clearly much greater growth on the security side than the development assistance side.

Do those figures bother you? Do you think there is an imbalance in what we are doing here?

Secretary **Shultz**. The figures derive out of our assessment, and since they have been appropriated, I would assume the Congress' assessment of what the needs are.

I think the numbers that you cited are accurate, but would be clearer if I disaggregated them a little bit.

I believe that the security assistance number is divided into two parts. One is economic support funds and the other is MAP and foreign military assistance.

So, when you look at the uses of the economic support funds, they are more akin to development assistance. They are devoted to economic development in the various regions where we have our basing rights.

The increases come about in three areas: Israel and Egypt, our base rights countries, and, over this period, Central America, where, by this time, my sense of it is that, leaving aside our controversies and differences of opinion about how the Nicaragua matter should be handled, there is broad support for the kind of help we are giving to the Central American democracies.

That is where these numbers come from, basically.

Senator SIMON. If I could just add, if you just take purely military assistance, it has also grown by a little better than 50 percent in that period.

Secretary SHULTZ. Yes, I agree.

Senator SIMON. ESF, at least my staff tells me that they are having a hard time getting a division here, and I would appreciate any information your staff could provide us on that.

Secretary SHULTZ. Could I arrange to have a member of my staff come to your office——

Senator SIMON. That would be great.

Secretary SHULTZ [continuing]. And with a knowledgeable person just try to go through the numbers so that we have a clear picture of the facts between us. I would like to do that.

Senator SIMON. And I would appreciate that. Thank you.

Let me shift to another subject.

Last week, you received your report from your advisory committee on southern Africa, a report that many of us find to be a very welcome report. They basically are saying that the steps we have taken on sanctions are steps in the right direction.

Congress has spoken very clearly on sanctions. And yet, last week, we also vetoed a U.N. resolution which would have called upon other nations to follow almost precisely the sanctions that we had voted here in the U.S. Congress.

What is your explanation for that? Is this a sound way to proceed?

Secretary SHULTZ. We have a lot of trouble as a matter of principle with mandatory sanctions voted by the U.N. Therefore, we felt that, even though what was being asked for would not have caused us in that instance to do anything particularly different from what we were already doing—the burden would have been on others—that it establishes a bad principle.

Senator SIMON. So, even though this is a policy that now is a policy of the U.S. Government, you did not want to be encouraging this on the part of other governments?

Secretary SHULTZ. We encourage it with respect to other governments. But the idea of voting for mandatory sanctions in the U.N. is something we have resisted. It has, of course, been most prominent in our consistent support of Israel in the U.N., where there have been efforts continually to do that kind of thing.

So we feel we should stick by this principle, even though in the case involved, it was not calling on us to do anything different than we were already doing.

The CHAIRMAN. Excuse me. I must break in here, and this is not on your time. I ask the timekeeper to note that.

We have now a very rare period when we have an actual physical quorum present in the room.

I would like to take up at this time the nominations from the State Department that are before us in our business meeting agenda.

[Whereupon, at 11:06 a.m., the committee proceeded with other business.]

[Whereupon, at 11:08 a.m., the committee resumed its hearing.]

The CHAIRMAN. I hope you will excuse this interruption.

Senator Simon, carry on.

Senator SIMON. Thank you.

If I may follow through on the African question, you mentioned, if I understood you correctly, that we are encouraging other nations to follow through on sanctions in a similar way to the pattern of the United States right now.

Is that correct, or did I misunderstand?

Secretary SHULTZ. We have the observation that sanctions have the best chance of working if they are applied uniformly by leading countries. And when that is not the case, they basically do not work.

So, we have consultations with other countries about what they are doing, and we tell them what we are doing.

Of course, they differ with us quite sharply in many cases.

Senator SIMON. Do I understand you to say that we are encouraging other countries to follow through on sanctions?

Secretary SHULTZ. We describe to them what we are doing and describe the congressional vote and so on. We are not out on a big campaign, as our advisory committee recommended, to make this a major element of U.S. policy.

Senator SIMON. All right.

Secretary SHULTZ. I have to say something about how you characterized that report—and I think it was a very good and interesting report, with outstanding people on the commission. But it was not a unanimous report, and there were a number of outstanding people on the panel who had a different view about sanctions.

I might say that, as I have talked with people from South Africa, and particularly representatives of various black groups, they have their doubts, now that they see American companies leaving South Africa, about whether that is such a good idea.

So, it is a little sobering.

I know that we had arguments here and I argued with members of the committee about this. But it is a very tough business.

Senator SIMON. If I may get one more quick question before the red light goes on for me, one of the small things—and here my distinguished friend from North Carolina, Senator Helms and I, may differ—but I notice we have $50,000 in there for training for the military in the Pinochet government in Chile.

I was a little surprised to see that item in the budget.

Secretary SHULTZ. Well, I can't say that I can—let me give you an answer for the record on that. I don't know what that is. I'm surprised, too. But let me find out.

Senator SIMON. OK. Thank you.

[The information referred to appears in the appendix.]

Senator SIMON. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Senator Lugar.

Senator LUGAR. Thank you, Mr. Chairman.

Mr. Secretary, let me just say at the outset that I think that the advice you gave with regard to the President's request and your suggestion to the committee that it ask the Budget Committee to at least give us that mark to begin with is a good place to start.

It seems to me that each one of us may have particular reforms in mind or agenda items that we want to discuss and there are likely to be differences as to the proper balance between military and economic assistance. But I would hope that, in terms of preserving the prerogatives of this committee, the chairman, the ranking member, and others, would advise the Budget Committee presently that the President's request ought to be respected; that the Budget Committee really ought to give that mark.

Otherwise, the Budget Committee is going to preempt a good percentage of whatever turf we have left. That could be a fairly substantial amount of turf sawed off before we even get into our intramural arguments or our criticisms of you and the Department.

I would just say, with respect, to the chairman, that he commenced the hearing by suggesting that your request was obviously too high. I don't think it is obviously too high at all.

What we are talking about is the military security of the country.

You tried to rephrase this, but I would say it even more strongly. I think we are talking about funds that are equally as important as the Department of Defense budget, about specific defense funds for our country.

These include the Foreign Service, but the Foreign Service is a very small part of this. We are talking about defense funds by which other countries that are friendly to us might take up a greater share of the burden.

I suppose that I, for one, just become very weary with this constant argument about whether we are doing too much in military assistance. Of course we are doing a lot, in part, because we don't want to send our own forces or involve America directly in high-risk situations.

For example, we had a long discussion last year about the costs of losing the bases in the Philippines. We had people come before this committee and suggest that if we lost the bases, it would cost $3, $5, or $8 billion for a less-satisfactory location.

But, when it comes down to talking about $50 million of military assistance, everybody clams up, as if somehow or other this is an outrageous extension. I just find the whole thing baffling.

But, while we are all trying to work out our own puzzles, we ought to get the message to the Budget Committee so that we keep the options open.

So, I am hopeful that others will concur with that. I feel very strongly that we need to make that assertion.

The CHAIRMAN. If the Senator would yield for a moment, I said myself that the State Department and the Foreign Service people are our first line of defense. The difference between us is I would like to see more money put into the civilian side or the nonmilitary side, and I think you believe more should be put into the military side.

Senator LUGAR. Well, I don't know whether I believe that or not. I would suggest that that is still to be argued out, before one commits to arbitrary funding ceilings.

In fairness to the Foreign Service, there are limitations to what these people can do in a military situation. I think the Secretary has pointed out that there won't be much utility for economic aid if the whole country is in civil war and law and order is disintegrating.

The CHAIRMAN. If you will forgive me, one thing we should have learned by now is that we don't intervene in civil war.

Senator LUGAR. Mr. Chairman, I would just say advisedly that I think our foreign policy right now by supporting freedom fighters is to try to roll back the Brezhnev doctrine. That involves us in very considerable risks, which we might want to discuss. But I think, up front, that the fat is already in the fire.

Now, in talking about the foreign military assistance situation, you pointed to the Middle East and the Camp David Accords. I think we can all understand the Israeli and Egyptian situation.

Let us deal with the base rights situation, and the moneys involved in the negotiation of base rights will host governments.

Illuminate, if you will, the negotiations we are now with Spain, Greece, Philippines, and elsewhere. And then you said the Central American part is perhaps the next chunk of assistance moneys.

Would you fill it out a little bit more from your own understanding of our needs in those regards.

Secretary SHULTZ. The one place where we have active negotiations going on right now is in Spain.

In the other cases, we expect to see negotiations start before long, and in one, we are more or less settled at the moment. But, of course, we have to look carefully at what we provide.

In the case of the Spanish negotiation, it is a very tough negotiation for us, and, particularly, in a setting where our best efforts are leaving us roughly 70 percent short from what was expected.

We have tried to account for that by virtue of the fact that, with a lot of initiative from Senator Inouye and Senator Kasten last year in their committee, the FMS portion was made more of a grant, as distinct from a loan, and, therefore, each dollar was, in a sense, worth more.

But, nevertheless, it is a very large shortfall, and it is not an easy hand to play if you are the negotiator.

Reg Bartholomew, whom many of you know, is very able and I am sure he is going to bring something satisfactory out of it. But it causes our base rights allies to wonder how reliable we are when we make certain undertakings.

We have illustrations in nonbase rights, and one that strikes me, because I went there for the inauguration of a new president, is in the Dominican Republic, where we have cut our sugar quota in half. It cost them about $50 million in foreign exchange. And we have cut down both our security and economic assistance. The shortfall over what was expected came close to 40 percent.

I remind the committee that it was not much more than two decades ago that a President of the United States, who happened to have been from the Democratic Party, sent 20,000 troops there in what has turned out to be a successful effort to get democracy established in that country.

But it shows you what happens when push comes to shove. We will call that "bipartisan."

So, it matters.

We should try to keep things in reasonable shape without having to do that.

Senator LUGAR. Mr. Secretary, a request has been made, again, for substantial modernization of Turkish armed forces. Would you say a word in behalf of that request so that we at least have your argument on the record as to our actions here.

Secretary SHULTZ. Turkey is a key member of the NATO alliance. It is a country of great significance, being a bridge in many respects, in a region where it is surrounded mostly by states that operate on a totalitarian basis and on centralized economic principles. Turkey is moving in the other direction.

It also is a Moslem country with a democratic form of government. It is a very interesting country in which we have a big stake.

Their military forces are ill-equipped and not anywhere near up to what we think would be useful from a NATO standpoint. And so, our assistance is designed to help put them in that much stronger position, given the NATO obligations and responsibilities that they have.

Senator LUGAR. Mr. Secretary, let me make just a quick comment in response to the dialog with the Senator from Illinois.

It seems to me that both this committee and the Congress were very careful last year in the South African question, to try to divorce sanctions from either disinvestment or disenagement from South Africa.

As a matter of fact, that was a central part of the debate. The Senate, and finally the Congress, came down clearly on the side of encouraging of Americans to continue to do business in South Africa, but, at the same time of sending a very clear signal to South Africa, in the form of limited economic sanctions that would not be ambiguous.

I appreciate the advice that you gave to the U.N. Ambassador. I hope it was a close call.

In my own judgment, it strikes me as the wrong call. It seems to me that, clearly, our policy is one that can only be successful if our major allies and other countries share that idea of limited economic sanctions. Our failure to convince others to move in a coordinated fashion means a possible failure of our own policy and that ought not to be confused with the idea that persons in South Africa are having second thoughts about American firms withdrawing.

I think they are two different issues and they need to be separated.

Secretary SHULTZ. I appreciate your comment.

I think the U.N. vote is one thing, and I have tried to explain the principle on which that decision was made. I think it is an important principle. If you think that over carefully, we stand by that principle in many instances. I myself think we want to retain it.

Insofar as the distinction between sanctions and investment is concerned, it is very difficult to make that distinction. If you are a company with an investment and you are trying to do business and you have an economic atmosphere conducive toward American investment and effort with respect to the economy to damage it, you say to yourself as a company "does my Government want me here"—and particularly so with the political atmosphere created around the country where a company that is located in South Africa and trying to do business is subjected to all kinds of abuse, and where various State governments—New York and California are two big ones—say they won't invest in a company that has an investment in South Africa. An atmosphere is created in this country that means that those companies that stay with it in South Africa really are showing a lot of courage.

But the natural inclination on their part has to be to say "Well, for political reasons, apparently my country doesn't want me here."

I recognize that you try to make a nice distinction in the law, but life is broader than that. The fact of the matter is that we have given a message to our companies that they ought to leave, and they are leaving. Most of the big ones that are heard of are leaving.

We have the position in the administration that we hope they don't leave, and we will do everything we can to help them stay. Our Ambassador does that in South Africa and we will do it here.

But the political atmosphere that has been created is very adverse to these companies.

It is a shame because they have been doing a terrific job, not only in trying to do their business, but in being good corporate citizens. We can be proud of what American business has done in South Africa.

The CHAIRMAN. Thank you very much, indeed, Mr. Secretary.

Senator Sarbanes.

Senator SARBANES. Mr. Secretary, looking at expenditures at the margin, would you say that our national security could be furthered by taking some of the dollars that are in the defense budget and putting them into the foreign assistance budget?

Secretary SHULTZ. Tempting as that apple is, I don't think I will bite on it.

Senator SARBANES. Well, I want you to try to bite on it because we just heard from Senator Lugar about this appeal to the Budget Committee, which, of course, is facing very tight constraints.

I take it you were a supporter of Gramm-Rudman.

Secretary SHULTZ. I am a supporter of getting our budget under control. It must be done.

The President made a proposal in his budget message to conform with the Gramm-Rudman targets. They include a budget for foreign affairs which I am defending here, and a budget for defense which I believe is necessary.

So, I don't think that there should be a shift of resources from one of those to the other. But, of course, it is my function to talk about this area, which is my responsibility, and to stand up for those requests.

Senator SARBANES. You don't think that dollars shifted from Weinberger's budget to Shultz' budget would be put to better use in enhancing our Nation's security interests?

Secretary SHULTZ. No, sir.

The President's judgment is represented by the allocations that he has made. From all that I can see—and I don't pretend to be an expert on all of the insides of the defense budget, but I do listen to discussions of it in general—I believe that it is fully justified. I find that, whenever we have a crisis somewhere, one of the first questions everybody asks is where are the carriers. It turns out that there aren't enough of them.

Senator SARBANES. Maybe the reason we have the crisis in the first place is because your budget has been inadequate in comparison with the defense budget.

Secretary SHULTZ. Well, I don't think that that is the right comparison.

I do think that the cuts, as I have said, have been too severe, and it doesn't serve the interests of our country to be that light on the resources devoted to these objectives. But that does not mean that they should be taken from the defense budget.

Senator SARBANES. Did you argue within the administration before the budget decisions were made that the distribution should be different from that which was finally agreed upon?

Secretary SHULTZ. There is a process in which, first, within our Department, we hear what the various posts and bureaus as to what they believe they should have to accomplish their objectives. We have to pare that back very sharply.

We make a submission to the OMB as part of the President's budget process and argue with them.

Within that framework, and always with the ability to talk to the President about it, a decision emerges on the overall allocation. I support that result, which is the President's budget request.

Senator SARBANES. Well, I would simply observe that what the administration has done is to submit a budget with domestic cuts so deep that they know the Congress cannot accept them. Overall estimates by the Congressional Budget Office now suggest that the administration budget significantly understates the problem before us. This of course, leaves the Budget Committee with an extraordinarily difficult task.

But you have no suggestions as to how they might resolve that?

Secretary SHULTZ. Well, I agree that it is a difficult task. Some of it is the product of different assumptions, and it remains to be seen what assumption turns out to be the correct one about the course of the economy. Then others, as you suggest, have to do with particular programs that the President suggests be reduced in one way or another. And you have said that you don't agree with that.

Senator SARBANES. What is the administration moving toward with respect to military assistance, in terms of grants and loans?

Secretary SHULTZ. On the whole, we believe that we should move toward a grant basis.

I think the experience with the FMS debt right now is sobering, myself. And so, we have been trying to work out some way to cope with it.

But we have countries that have incurred a large debt in the FMS program, and now are faced with the repayment of that debt and with interest rates that are very high by current standards. And so, if that goes according to the plan, the flow of funds from those countries to the United States would be a major fraction of or in some cases exceed our assistance levels to them.

I think it is questionable to make loans of that kind to countries that you know have very low income and have a hard time repaying.

If you borrow money, you, presumably, do it on the basis that you are going to do something that will enable you to repay the funds. So, it is an investment in a plant or something, well, then, there is a cash-flow and so forth and you can make that calculation.

If you are buying military equipment, of course, it serves the most important function of all; namely, providing for your security. But it isn't going to generate a cash-flow that makes it easy to pay back.

So I think it is a very questionable proposition.

Senator SARBANES. That is an interesting point. The thrust of it applies to our own military spending as well, of course.

Secretary SHULTZ. Of course. And I repeat again that this spending goes for the primary function of Government, or a primary function; namely, to defend ourselves, our interests, and our values.

We have to do that.

Senator SARBANES. Do you think providing the military assistance on a loan basis helps to inhibit the extent to which countries seek to arm themselves because they have to make a judgment about repayment?

Secretary SHULTZ. Well, it is hard for me to judge how countries view it. The loan is soft in its early stages because there isn't any immediate repayment. So, it has a beguiling aspect to it.

But then, when it comes time to repay, it's tough. That is where we are now.

Senator SARBANES. Do you think more and more countries are defining their overall relationship with the United States on the basis of their arms relationship with the United States?

Secretary SHULTZ. No.

We are not the big arms purveyor around the world. But I do think that countries who have a common bond with us have in some ways common security problems. And so, they expect that they can work with us on that.

Senator SARBANES. You don't see an increasing tendency for countries to judge the depth of their relationship with the United States primarily in terms of the transfer of arms from the United States?

Secretary SHULTZ. Not particularly, although I think the relationship of our military to their military is often a very important part of the relationship.

Of course, countries vary in accordance with the role of their military and their society, so that varies. But, by and large, countries want to focus on their economic development. That is what they want to do and that is what we want them to do. That is what we want to do.

Senator SARBANES. So, what the administration is trying to move toward making all military assistance on a grant basis, is that correct?

Secretary SHULTZ. I think that, by and large, that is a good objective, but, of course, with respect to certain countries. There are many countries with which we have arms sales which can perfectly well pay for them or for whom loans of one kind or another would be perfectly acceptable. But I am thinking of countries that are basically low in income and have great difficulty in buying on their own or in repaying.

Senator SARBANES. The administration was called upon last year to present a plan addressing the need for FMS reform.

Has that been put together yet, do you know?

Secretary SHULTZ. Well, we have worked through some ideas on FMS reform or propositions to put to different countries about their current situation. That is represented and I would be glad to describe it. That is in the documents.

In the meantime, however, beginning I guess about 2 years ago, we tried to move gradually toward a greater grant element in the FMS program, and we continue to think that is wise.

Senator SARBANES. Let me just try one more question.

If the Congress decided that it had to make cuts in either the military or the foreign assistance budget, in which area do you think we would get a greater return for our dollar by leaving the money in there?

Secretary SHULTZ. Well, it is hard to answer that question in a broad way because I think you have to look case by case at the situations that countries face. There is a very real sense in which the two things are intertwined. Where what you have is a very tough insurgency, as in the Philippines, they also have to cope with a strong economic problem.

So, you have to look case by case, and I don't think a categorical answer would suit the situation.

The CHAIRMAN. Thank you very much, indeed, Mr. Secretary.

Senator Kassebaum.

Senator KASSEBAUM. Mr. Secretary, one of the problems in the foreign aid process—and you addressed this in your opening comments—are congressional earmarks.

Now of the ESF fund, 70 percent are earmarks, with 60 percent going to Egypt and Israel.

I think this problem will continue to grow—I think it is a concern that probably we all share to a certain extent—when resources are diminished.

In your budget request, there is new authorizing language for sub-Sahara Africa with the creation of a development fund for Africa, a regional approach to budgeting, in which all of the functional accounts have been removed.

My question is have you given any thought to approaching all other areas with a regional approach when we are giving aid?

Secretary SHULTZ. Well, we have not thought about it that way.

The Africa idea came out of discussions with Members of the Congress, including yourself and your subcommittee. And I think there was a Kennedy-Kasten bill in the Senate and a Fascell bill in the House that was along these lines. And out of that consultative process emerged the idea of, in effect, pooling the various functional and country by country accounts in Africa into a fund that could be used more flexibly.

I would have to say, in addition, perhaps speaking for the people especially interested in Africa; that what they have observed is that the ratcheting of earmarking on the one hand and knocking down totals on the other has wound up squeezing Africa out of the picture. And so, I think people have felt that if you created this fund, somehow, that was a way of providing some protection. I agree with it. I think it is the right way.

Senator KASSEBAUM. So, essentially, we are earmarking Africa.

Secretary **Shultz**. Or trying to. But one of our problems is before we get through, we are going to earmark more funds than there are, and there will be no flexibility left at all.

Senator **Kassebaum**. Would it not be best to consider getting rid of earmarks and just moving to regional budgeting in which ESF funds would all be a part of the regional budget?

Secretary **Shultz**. I am of two minds about the earmarking. I wish for more flexibility. On the other hand, it is an expression of a congressional view, and, by and large, the earmarked areas are ones that I would have no difficulty with. I agree with them.

But we have this problem.

The problem comes because of the severity in the depression of the total. That is why we feel so squeezed.

I think that the way to handle that is not to get rid of some of these major places where there are earmarked funds, but to work on the total and get it up to where it ought to be.

Senator **Kassebaum**. Just to follow up on that question, briefly, Do you see any problem in removing functional accounts for the Development Fund for Africa and yet maintaining functional accounts for all of the rest of the budget?

Secretary **Shultz**. I think we can handle it administratively, as I understand it.

Senator **Kassebaum**. My second question, Is when do you anticipate sending up the $300 million request for aid for Central America?

Secretary **Shultz**. I think we are about ready to do that. The struggle, of course, is to identify where the money is going to come from, and because money is so scarce, it is hard to do. But there was a clear congressional expressed desire that there be $300 million for Central America. We agree with that. The only problem is that Congress did not provide the money.

So we are struggling with that. I think we are just about there and it should be possible to bring that forward promptly.

Senator **Kassebaum**. Would it be possible for you to give us at this point a preliminary breakdown of priorities in that $300 million? Before you answer, though, I would like to give my own statement, to a certain extent, on that.

I think it is very important that we support the democracies in the region. But I also have some concern that we are going to create dependencies at the very time that we are trying to also struggle to strengthen these democracies.

It seems to me that it is a fine line that we are going to have to walk. I wonder if you could share just some preliminary thoughts on those priorities.

Secretary **Shultz**. Do you mean allocations as to countries?

Senator **Kassebaum**. And who is going to manage it? What agency will you be working through? Is there going to be an independent agency that is going to be handling this?

Secretary **Shultz**. Well, I think the funds fall into familiar categories, basically, and would be administered by present agencies, mostly AID. I would rather make specific comments when the President's program is announced and put forward as to the allocations.

But I share your point about dependency. So, the emphasis needs to be on finding things that help people get on to a self-sustaining growth path. That is really the object.

On the other hand, there are problems—and this would not be in the $300 million; but we have asked for it in the supplemental—where you have something like the earthquake in El Salvador, which caused tremendous damage. We should help them. That is not money that you can expect to be repaid. You just have to help them, that's all.

Senator **Kassebaum**. That's true.

Maybe this is a wrong figure, but I believe one of the largest recipients in Central America has been El Salvador. Since 1981, they have received $2 billion in total funds of one sort or another.

And yet, we do have a country today which we all very much want to help; and yet, it is struggling still with a poor economy, with high unemployment, and with unrest.

I am wondering—as you say, we will be sorting through the $300 million request—if it is just money that is the answer or really giving some careful assessment to how it is being used.

Secretary **Shultz**. We certainly want to be careful in how it is being used.

The case of El Salvador is an example of a country, as we have discussed many times in the committee, where we and the committee together can feel some sense of satisfaction, satisfaction that El Salvador is struggling to maintain and nourish its emerging democratic tradition and its effort to find its way toward greater rule of law and judicial reform, and at the same time to counter the insurgency still fed from Nicaragua, and to see its economy turn up, which it has barely done.

Of course, then it gets hit like a ton of bricks by this earthquake, which caused at least 1 billion dollars' worth of damage, and perhaps more. It interrupts the economic life.

So, it is a tough situation, but one in which we have a big stake, and where some good things have happened and we should stick with it.

Senator **Kassebaum**. I have another question that I would like to ask, but it is a bit off the budget. Since you are here, I will do so.

Yesterday, about 4,000 Syrian troops went into Beirut to "maintain order" on the streets of Beirut, or so they said.

I would like to ask your thoughts on the current situation there. What policy development at this point do you anticipate our taking toward the situation there and in Lebanon in general?

Secretary **Shultz**. Well, the situation in Beirut has fallen into chaos, particularly in west Beirut. There is not that much that we can do about it.

The Syrians have played a role in not having go forward one approach to order in Lebanon, which was represented by the May 17 agreement that we worked out with Israel and the central Government of Lebanon, and what Syria may be able to do, we will see. But, certainly, the situation has been chaotic, and if order can be brought into that situation, that would be a positive development.

Senator **Kassebaum**. Is there any thought to two alternatives that I have heard discussed: one, a U.N. protectorate; or, two, dividing Lebanon between Israel and Syria?

Secretary SHULTZ. Well, certainly on the latter, I have not heard any discussion on that. And Israel has made it clear that it does not covet any Lebanese territory. What Israel seeks is peace and security in its own northern area. And, therefore, the part of southern Lebanon that has been a platform for attack against Israel is of concern to them, and understandably so. That is their interest. They are not interested in acquiring Lebanese territory.

Syria, of course, does not have an ambassador to Lebanon. That is because they don't think they need one, that it is part of them.

The CHAIRMAN. Thank you very much, Mr. Secretary.

Senator Dodd.

Senator DODD. Thank you, Mr. Chairman, and thank you, Mr. Secretary, for being with us this morning.

We had Chairman Volcker in the Budget Committee and spent a good deal of time talking about the debt issues there this morning. I guess we have Secretary Baker here, as well.

Secretary SHULTZ. You have a full house today.

Senator DODD. Yes, a full house.

I would like to come around to that eventually because I know you have a lot of expertise in the area, and the Brazilian issue is one that obviously will impact on this committee as well.

But, if I could, I would like to begin with some questions for you about this recent effort by President Arias in San José. As you know, a week and a half or so ago, four democratic governments of Central America met in San José and signed a document there, at least a generally worded document, to try to initiate a process for a political or a diplomatic solution to the problems of Central America.

In addition to that document, they submitted, without signing it at all, a working paper which could serve as the framework for a further meeting, some 90 days from now, in Esquipulas, in Guatemala, which the Nicaraguans have been invited to attend.

I wonder if you might want to describe for the committee what your own assessment is of President Arias' effort, or what the State Department's opinion is of the document that was signed by the four democratic governments, and whether or not the administration supported that particular effort to come together, as well as their reaction to the forthcoming process that could lead to results in Esquipulas.

Secretary SHULTZ. I believe that one of the healthy developments in Central America is, first, the emergence of four democratically oriented countries with civilian elected presidents; and, second, the emerging sense of community among them.

They support the Contadora process as we do. But the Contadora process in most of its time has been one in which the countries outside Central America were, in a sense, saying to the countries of Central America here is what you should do.

I think it is a healthy development that the four democratic countries are more saying "Well, we live here and we are going to have some say about what is to happen here, and we will be producing ideas of our own."

So that process has been taking shape, and the meeting that you referred to is a part of that process.

We support that process. We think it is a healthy thing.

Now, as to particulars, they are evolving. Just as we have supported the Contadora discussions, we support those discussions.

The President's Ambassador-at-Large, who is leading our diplomatic effort in the region, Phil Habib, is in the region right now, and I expect that he will be back by tonight after going and getting a sense of what is taking place. I look forward to hearing from him when he returns. I don't want to try to pronounce this way or that way about particular details.

I think you used the word "process." I think that is an appropriate word. We want to encourage this kind of process.

I think a touchstone always will be the getting of something which contains a commitment from Nicaragua that it will change its ways and have a form of government that is more pluralistic, more responsive to people, more democratic, with more rule of law, more openness, more freedom of the press, more freedom of religion, and a readiness to include all of the contending parties in Nicaragua in such a process.

Senator Dodd. I appreciate your response to that. It is encouraging.

I received some word, however, that, prior to the San José meeting, the administration, in fact, was not in favor of the meeting taking place and, in fact, discouraged participation.

Let me ask you this.

Would it be possible—and I presume, for obvious reasons, there may be a necessity—to make available to the committee any of the traffic, the diplomatic traffic, to those countries prior to the February 15 meeting in San José.

Secretary Shultz. I think we are getting into a real problem in the conduct of the foreign policy of the United States, because it is being intruded in all sorts of ways. Frankly, Senator, I want to confront you on this subject.

People go to an area that is very sensitive, like Central America. They insist on going to talk to a head of state, as you have, and will not have the Ambassador present. The Ambassador is the country's designated representative there and is supposed to represent the policies of the U.S. Government.

When you go—and, of course, we don't know what goes on in the meetings that you have with heads of state, and presumably you discuss your point of view and your interpretation of congressional outlooks—it has an impact. It has an impact on their judgment of the United States. It has an impact on their judgment of whether or not the Ambassador is worth dealing with. It has an impact on the dignity of our country.

We have lots of arguments about foreign policy. I think we should have them here. Then it is up to the President to represent squarely the foreign policy of the United States abroad.

Personally, I think it is a very good thing that Members of the Congress travel a lot and are informed and provide a sense to the countries that they visit of congressional attitudes of various kinds. I think that is an important thing to do and I fully encourage it.

But the effort by Members of Congress to, in a sense, run their own foreign policy, I don't think that is the way to do it. I think we have plenty of room for debate right here. But then, when we go outside, we ought to stick with the policy we have.

Now, as far as our policy in Central America is concerned——

Senator **Dodd**. Let me interject here, if I can, before you move on to the other subject, since you have made it a point of personal confrontation on the issue, I think, in fairness, I should have a chance to respond to this.

There is the long-held and cherished separation of powers doctrine of the Constitution. Certainly we all accept the notion that the conduct of foreign policy is the prerogative of the President. No one argues with that at all.

Obviously we in the legislative branch have a function to perform as well, and that is, of course, the power of the purse, to appropriate funds, as requested by an administration, for whatever purpose, and in this regard obviously in the conduct of foreign policy.

It is important, I think, from time to time for Members of Congress to be able to have candid discussions, without trying to conduct the foreign policy of the country.

I was told—and on a number of occasions, by the way, I have personally invited the Ambassador to attend, and the most recent trip was particularly one where I would like to have him at a meeting. In other cases, I prefer they didn't attend because of the record that I think they have accumulated.

But the implication, somehow, that we are trying to conduct foreign policy from time to time where Members of Congress seek meetings with individuals without the presence of the Ambassador I think is a step that goes far beyond what the executive branch ought to be suggesting.

I agree that in most cases, in many cases, certainly, trying to have a harmonious voice where the policy of this country is being expressed by both the legislative branch and the executive branch is the ideal, and the closer we can come to that, the better we all are.

But, from time to time, there will be differences. There is a difference in this particular case. The Congress has been heard on this issue. It will be heard again and again on this issue.

So, I think it is important in certain circumstances that there be such meetings where not necessarily the executive branch is included. There are countless meetings—countless meetings—where the views of the executive branch are being represented on an hourly basis by the Ambassador in a country. Rarely—rarely—do these people get an opportunity to hear the views of the legislative branch, unfettered, unencumbered.

And so, from time to time, I have made those requests.

I would hope that this would not become a policy of the State Department because, clearly, you have the advantage in discouraging such meetings.

Since you have raised the subject, I must ask you at this juncture, Mr. Secretary, is it now the policy of the Department of State to not permit or to discourage individual Members of Congress, committee chairmen, and whoever else may be traveling, to seek such private meetings?

Secretary **Shultz**. We believe that it is, by far, the best for the Ambassador or somebody from the Embassy to be present at official governmental meetings. And there is no way for you, as a Senator and now as chairman of the subcommittee of this committee that deals with Central America, to go and talk with heads of state in other than an official capacity. There is no such thing as a private visit, like that of a private citizen, or something like that.

Senator **Dodd**. I wasn't suggesting that.

Secretary **Shultz**. And so, we think that we should be, at least as much as possible, in the stance of a government abroad and not as a congressional government and an executive government. That is the whole point of the Constitution, to have a unified approach when we go abroad.

Now, you said the "congressional point of view." I don't know what the "congressional point of view" is. There are lots of different points of view in the Congress, and different people might go and have different things to say.

Insofar as the program of support for the Nicaraguan resistance is concerned, there is a policy of the United States, supported by the President and voted on affirmatively by both the House and the Senate last year. So that is a policy of the United States of America, legitimately arrived at. And you don't agree with it.

But, nevertheless, there is a process here in which we vote, and maybe the vote will be different. You are going around telling people that it will be different. But, nevertheless, there is a policy of the U.S. Government and I think we are entitled to represent it, and not to have foreign leaders constantly told "Well, that is what the Ambassador tells you is the policy, but I want to tell you that the Congress has a different idea."

Senator **Dodd**. Well, let me, if I can, interject something here.

Secretary **Shultz**. I don't want to make too big an issue out of this, but it is a problem. You have questioned whether or not I am telling you what our view is of the Central American democracies, and you want to see the cable traffic and see if anybody had this or that or the other suggestion.

That is our business, to conduct our business.

Senator **Dodd**. I must say, Mr. Secretary, that it is extremely important. Our business is your business. And if I find out that the Department of State is sending out traffic discouraging such a meeting, and I hear other people say publicly that we are encouraging it, I think it is the business of this country that a committee of the Congress be knowledgeable about that.

I said let us know in private meetings, if you will, or in classified briefings and not in public. But to suggest, somehow, that as elected representatives of the people of this country, sitting on an important committee that decides whether or not a particular nation gets the taxpayer dollars of this Nation, I think is extremely important—extremely important.

I cannot believe my ears when I hear you say or suggest that a committee chairman should not be encouraged or would be totally discouraged from having a meeting with a head of state and somehow that may be less than patriotic.

Secretary **Shultz**. I didn't say anything about patriotism.

Senator **Dodd**. Well, that is the implication.

Secretary **Shultz**. I referred to the Constitution, which you did, too.

I said that it seems to me that when we come to foreign policy, we should try to put forward a sense of cohesion from our country, and we fully recognize that there are differences of opinion about foreign policy.

My own judgment is that they are less than appears on the surface because the broad flow of what we are trying to achieve and what we are for is very broadly supported in this country. Otherwise, it could not possibly move.

But, when we go abroad, I think we ought to have some cognizance of the importance of presenting a coherent picture, and one way of doing that is to have the Ambassador or have somebody from the Embassy present. They are not trying in any way to influence you. But it is a process of, on the one hand, having the Embassy know; second, making it clear to the head of state that Members of Congress are cognizant of the Embassy and respectful of the Ambassador and his role, that you are not denigrating it.

If you denigrate it, it makes it hard for him to do all of the things that he is supposed to do.

Senator DODD. I feel that I must ask if this is our policy. Is there a directive going out on this subject matter that is now going to say that private meetings, or however you want to characterize them, not as private citizens, but private meetings sought by Members of Congress will be discouraged, or should be discouraged, or that they would be ill-advised to some extent? Is that going to be a directive?

Secretary SHULTZ. It is not a directive. I am saying to you that I believe it is much preferable, when you go abroad, to talk to the Embassy, to give them your views, to include them in your meetings in some fashion. They want to help you. They are not against you. They are for you.

Senator DODD. My time has expired.

The CHAIRMAN. Senator Kassebaum.

Senator KASSEBAUM. I have already had a turn, Mr. Chairman. Of course, I would like to ask some more questions.

The CHAIRMAN. I'm sorry.

Senator Boschwitz.

Senator BOSCHWITZ. Thanks, Mr. Chairman.

I think the conversation that you are just having with Senator Dodd is of great importance and, as a matter of fact, bears very much on my question. I only have one, and after I ask it, I would yield back whatever my remaining time is in order that you continue that conversation about separation of powers, and so forth.

Secretary SHULTZ. I think I have said what I have to say on the subject.

Senator BOSCHWITZ. Well, I understand that. But I can understand, too, that it must send out some very confusing signals to our friends and allies there are so many players getting into the act.

I believe that some Members of Congress, with all due deference, do like to conduct a little foreign policy. Even Governors now want to do it with respect to National Guard units, which will further complicate matters.

I wanted to turn back to your statement about the budget, which I understood to be the purpose of this hearing. I agree with your presentation. As a matter of fact, I am always amazed at how far not very much money goes in supporting our point of view around the world. I think the money is well spent.

I agree with Senator Lugar's statement that he made as well.

As a member of the Budget Committee, I will defend the point of view that you have expressed this morning, Mr. Secretary.

But I would also like to turn for a moment to Iran. Often from incidents like the current one with Iran the Congress decides, in line with your discussion a moment ago with Senator Dodd, that it is going to further constrain the ability of the Executive to conduct foreign relations.

I expect to oppose any such additional constraints if they come before us, and I recognize that you often underscore your desire to act carefully within existing constraints.

But I wonder if you could share with us your thoughts, if you have some, of the possibility of new limitations being placed on the Executive as a result of the difficulties that we are now experiencing from Iran.

Secretary SHULTZ. Well, we are in the process of being investigated from all angles. The Tower Commission is about to report, I understand, and there is a special Senate group investigating and a special House group investigating. What they are all going to find out, I don't know.

Out of all of that will presumably come recommendations, or there may come recommendations. I don't know.

I would like to see what those recommendations are as they reflect on all of the facts that they gather, and respond.

I do think that we have certain principles that at least I would go by.

First of all, and I recognize the connection with this discussion, we have a tradition and a form of government that basically goes on the basis of openness.

Now, "openness" means that there is a kind of automatic accountability. There has to be accountability. You are all accountable. You are accountable to the voters, and I am accountable. I am testifying most days of the week, it seems to me these days, and you appear before the press and so forth. You are, in a sense, in an open situation.

I think that we have to have accountability.

There are certain areas where we agree that openness does not work. When we come to those areas of operation, then that means that we have to be especially careful about accountability because the accountability that openness gives disappears or is lessened a lot.

For this reason, it seems to me, that, within the executive branch and as between the Executive and congressional, special procedures for accountability need to be designed and have been designed.

So far as I can see, they are perfectly good procedures.

They were not fully operative and so some undesirable things happened. So, it seems to me, the question is to say to yourself "Well, is there something about the way those things happened that would lead you to change the procedures in order to ensure that accountability?"

I don't know the answer to that.

I observe what Mr. Carlucci is doing in the National Security Council staff and I think that what he is doing is the right thing. He is basically saying that that staff, which is, in a sense, not accountable outside of its own internals, should not be involved in operations.

I don't think you should lay that down as an absolute rule for the Security Advisor. There have been instances where it seems to have been very worthwhile and especially useful to have the National Security Advisor do something or other.

But, by and large, I think it is a good rule and particularly units that might get formed within the NSC staff to carry out operations are not desirable at all.

I think, myself, that, when it comes to the intelligence function, we depend to an extraordinary degree in the Congress and the executive branch on the richness and objectivity of our intelligence community and what they provide.

We all know very well that, even hard as one may work on it, if you are involved in a policy of some kind, and you are trying to make it work, your capacity for objective analysis is probably reduced a little bit. The really good operators don't have it reduced much because they maintain their sense of realism.

But there is that tendency.

Therefore, I think the intelligence community should not be involved in policy.

Now, when it comes to covert actions, that is a necessary thing. But they need to have, and I believe they do have, a firm wall between intelligence and operations.

I was always impressed in my private days with something. I was a director of I think one of the best banks in the world, and it was striking to me how carefully and completely they managed to insulate their trust department, where they were investing $20 billion or more of money, for which they were the trustee, from their commercial banking activities. Obviously, that is a necessary thing to do. But they really did it.

I think that sort of thing has to be done, and people are trying to do that.

But those are some of the principles that I would go by as to what, in particular, needs to be done by way of regulation. I am not so sure that that much more is needed.

Senator BOSCHWITZ. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, Senator Boschwitz.

Senator BOSCHWITZ. If the Secretary or Senator Dodd wants to use the balance of my time to further their interesting conversation, I yield it back.

Secretary SHULTZ. It is a subject that I would like to discuss with Senator Dodd privately. Maybe we could get together and mull this over because I think it is not a big problem now, but it could be, and I think it is well to talk it through.

Don't misunderstand me. The last thing in the world that I would try to do is to tell a Senator or Congressman what they can do. They can do anything they want to do. But it does seem to me that we should counsel together on the ways to make our country's work abroad as effective as possible. And I think the more coherent it is, the better off we are going to be, that's all.

Senator Dodd. Mr. Secretary, I don't know who has been giving you information. But no one feels more strongly about that than I do.

I think that if it weren't as sad as it is, it would almost be humorous, in this hour, with all the committees meeting—and you have referred to them yourself—talking about a coherent foreign policy.

I don't lay the blame at your doorstep because I have a great deal of respect for you and what you have done and tried to do. But, apparently, it is more a question, I think, of egoes being involved here than of substance. In many instances, where quiet requests were made and handled properly, I thought, all of a sudden now they are being blown way out of proportion from what they actually were.

From what I have seen, anyway, of the cable traffic that has come back, in most instances I believe our Ambassadors had complimentary things to say about the efforts. But, nonetheless, it has been, I think regrettably raised this morning, not by me, but by you, sir, in this forum.

I would be glad to talk about it with you privately at any point and at any time. I am available to do so.

Secretary Shultz. Thank you.

The Chairman. Thank you very much.

I notice that there are still four of us left. I think we all have a 12:30 meeting that we hope to go to, so we should roll right along.

Senator Sanford.

Senator Sanford. Well, I'll move right along.

The $300 million that you are putting together for the four democracies—it occurs to me that we have spent a great deal of money, of aid, in Central America over a great number of years, and still we see such tremendous economic difficulties, so much poverty. Can there be a more specific, focused plan for the $300 million, instead of just doing more of the same things? Is that part of the business of getting ready to find the money, too?

Secretary Shultz. Yes, sir.

Of course, in a sense, the history of this is that a bipartisan commission was appointed back in 1983, I think it was, with a lot of encouragement from Senator Jackson, who was quite worried about this problem, as many of us were. That was a genuinely bipartisan commission. Henry Kissinger was the chairman.

It made a report and it set out ideas that we worked on and that were discussed in the Congress, and it represented, in a sense, a plan.

They foresaw the need for a rising level of expenditures beyond what we were doing, particularly to support economic development in the region.

The fact is that we are falling far below what those projections showed were needed. I think it is for that reason, as Members of Congress observe the problem, that in the end of the last session of Congress, as the legislative process was going on, there was this clear expression that we should have more money for Central

America, but none of us knew where to get it from. So it isn't there.

But a special fast track was created so that it could be asked for and would be acted upon sort of quickly and on its merits, assuming we could find and come up with some places that it would come from.

So that, basically, is the history of it.

But, certainly, as it breaks itself down into the component parts, it needs to be spent for what we hope will be worthwhile, good purposes.

Senator SANFORD. I would also like to follow up on Senator Sarbanes' comments.

He invited you to take a bite of the defense apple and, of course, you very wisely refused to have that kind of feud with a fellow Cabinet member. But I imagine you would give the same answer if I asked you whether you would want to invade Secretary Bennett's budget in order to improve the State Department budget. Of course, I know the answer to that is "No."

But we do have to make priority decisions here, it seems to me, and we do defend this Nation and have to as a primary cause. But it is my view, and has been for a long time, that the great defense establishment that we have is the No. 2 defense of the Nation because the No. 1 defense of the Nation is the ideal and the idea of America and the State Department expresses that for us all over the world.

So I would be most inclined to provide more money for this kind of well-planned effort to reduce the tensions and reduce the danger of communism and to lift up the opportunities of people, which is the duty of the State Department. So I have no qualms about looking with a very wary eye at what we can transfer from the Defense Department to the State Department, and you don't need to comment on that.

But I did want to make that point.

I think what Senator Sarbanes was saying is extremely important, that we know what our strengths are and that we attempt to use them the best way we can.

Now, I would ask one quick question about Central America.

The great difficulty of the Costa Rican initiative is that at some point, if they are successful in getting agreement on paper, they are going to have to trust the Sandinistas to do what they say they are going to do. That seems to me to be the crucial point: Do we take their word or do we not take their word.

My question to you is this: If the four democratic countries and their leaders are satisfied with the final plan, will we be satisfied with it?

Secretary SHULTZ. Senator, I think that we should not try to get ourselves into a position where the question is, do we trust the Nicaraguan Communists' word because they have demonstrated that their word is not much good.

The situation that needs to be constructed is one in which various undertakings are made that have built into them a momentum and a verifiability that can't be gotten away from. I think that is where the difficulty comes, when you start talking about cease-fires and one thing and another, that it is going to be hooked up to things in such a way that the activity that comes next will actually take place. And it is not just a matter of trusting them.

Senator **Sanford**. We have to have all kinds of verifiable safeguards in there. But that is where the difference of opinion is going to come, it seems to me, between the four countries and maybe us.

The real question is, Are we going to let them make this decision?

Secretary **Shultz**. Well, of course, they are all independent countries and they will make their decisions for themselves.

We are also an independent country, and we have to look at things from our standpoint.

But, as I said in response to Senator Dodd's question, I find the assertiveness of the Central American democracies to be a healthy, welcome development. And I think you do, too.

There is a process going on here and we want to work with that process, and not be too quick to pass judgment, that we don't like this or we don't like that, or we do like this and that, or we ought to do that. We need to work with them.

Senator **Sanford**. That is my real point, that we do need to work with those four countries now that they have taken the initiative. I would say that we do need to let them take the lead since they are there, and one of our great concerns is their welfare anyhow.

Thank you.

Secretary **Shultz**. Thank you, sir.

Let me say that I agree entirely with your point, that the real strength of our foreign policy has to be what we stand for and what we do here at home.

Senator **Sanford**. Thank you, Mr. Chairman.

The **Chairman**. Thank you very much, indeed, Senator Sanford. Senator Pressler.

Senator **Pressler**. Thank you.

I want to pursue a line of questioning about Greece, Turkey, and Cyprus, a bit.

Let me say, first of all, that I wrote a letter to the President of Cyprus in which I was critical of some of their votes in the United Nations. I discovered that Cyprus voted with Libya in the United Nations on the resolution sponsored by Libya condemning the United States. I was up there as a delegate to the U.N.

I have been a strong supporter of Cyprus. They can vote any way they want, but I just want to make that a matter of record.

Mr. Chairman, I ask unanimous consent to put my letter into the record at this point.

The **Chairman**. Without objection, it will be so placed.

[The information referred to appears in the appendix.]

Senator **Pressler**. Mr. Secretary, would you give some analysis of the Greece-Turkey-Cyprus budgetary decision? I know that Turkey, on paper, is thought by the Defense Department to be our strongest military ally, and we want to be friends with all three. The budget request that came from you does not have the 10-to-7 ratio, but does have some shifting.

What is the thinking? Would you cover each of those countries briefly and what your thinking is in terms of developing the proposal as it came to us.

Secretary **Shultz**. Well, each is important and important to us, and we are working hard with Turkey and with Greece to see that our relationship is a good one and a strong one.

You have commented on Turkey.

With Greece, of course, we have an important relationship that is historic, and we have bases there, too. We have been undertaking, and I have been very heavily involved in an effort, through a step-by-step process, to improve our relationships with the Government of Greece. It has been going pretty well, and it is evolving.

I personally feel very good about it, and, from all the indications, so does my counterpart and others in Greece.

As far as Greece and Turkey are concerned, we just wish they would get along better with each other. But it is not a quarrel that we can really mediate very well, and of course it has its reflection on Cyprus.

We have put a lot of effort—it hasn't been successful, but a lot of effort—into seeing if there are not ways to compose the difficulties on Cyprus.

We have felt that the most promising route to that has been the initiatives of the Secretary General of the U.N. We have tried to support those initiatives and have counseled both countries to support those initiatives. And they have moved things forward somewhat, but there is not anything that you can describe as closure.

We think that the move to declare themselves independent on the part of the Turkish side of Cyprus should be opposed. We think that is not the right way to go. The right way to go is somehow to compose the differences and to have a united Cyprus.

In the meantime, the direct aid that we have to Cyprus is something that we, in the administration, are not as enthusiastic about as Members of Congress seem to be, so we have an earmarking dispute there. But, in the end, you are the final arbiter.

Actually, we would like to see a lot more assistance go to Cyprus if there were an agreement of some kind to implement and to assist in its development. We made a proposal along those lines at one time. But it is a situation that has been there for a long time and it is difficult. I cannot sit here and forecast very optimistically about it.

Senator **Pressler**. I have been one of those who has been a supporter of that.

Secretary **Shultz**. Yes, I know.

Senator **Pressler**. I am not afraid to express disagreement with countries, as I did when I wrote to the President of Cyprus about how they voted in the U.N.

I guess it boils down to this: Many believe that if Turkish troops are ever to be removed from northern Cyprus, it would only come through pressure from the United States. I do not necessarily tend to believe that. That is exemplified through the 10-to-7 ratio or other steps regarding aid.

What prospects are there? How much leverage do we have through formulas to move toward getting the Turkish troops out of northern Cyprus, in your judgment?

Secretary **Shultz**. Well, as I have listened to the Greeks and have listened to the Turks, they each have a lot of things to say. Rather than kind of rehearse what is a sort of "them and us" kind of thing, I think what we should be doing is what we are doing—supporting the initiative of the Secretary General and trying to work it along as best we can.

There has been some, what shall I call it, modernization of military capabilities on both sides of that dispute on Cyprus. It would be nice if that could go away and they could settle that dispute. I would like to see that happen.

I don't see it right in the immediate future.

Senator PRESSLER. And you don't see our 10-to-7 aid ratio having much impact on that?

Secretary SHULTZ. I think it is one of those issues where our present support for both Greece and Turkey gives us some standing to give advice. I think, if you really come down to the crunch, there are issues about Greece, Turkey, and Cyprus that those countries all feel very strongly about, and we cannot tell them what to do. They are independent countries, and that is the way they are going to be.

But I think we can work with them, and they have been responsive and interested. I have certainly talked to both countries at length about the subject, and the various parties on Cyprus.

Senator PRESSLER. Thank you, Mr. Chairman.

Senator Evans.

Senator EVANS. Thank you, Mr. Chairman.

First may I have consent to have an opening statement of mine placed in the record?

The CHAIRMAN. Certainly.

[The prepared statement of Senator Evans may be found in the appendix.]

Senator EVANS. Mr. Chairman, let me turn first, rather than to the Secretary, to you, as chairman, to ask about policy and how we are going to carry it out in response to the Budget Committee questions.

Frankly, I think last year, the Budget Committee had our lunch, as far as foreign aid was concerned. There was a combination of circumstances, but we ended up with a foreign aid budget that I think was far too low, far too earmarked. We were unable to carry on, the Department of State and administration were unable to carry on their activities.

I am concerned that it is apparent that we are not, as a committee, going to gather together on whatever policy it is we want to send back to the Budget Committee.

As I understand it, you have sent a letter to the chairman, but there are some parts of that letter, at least at this point, that I am not prepared to associate myself with.

I just wonder, what is our policy going to be? Is it going to be a committee response or the chairman's response to the questions that the Budget Committee is now posing to us?

The CHAIRMAN. If it could possibly be a committee response, it would be good. But I think there are certain points where we are in disagreement ourselves, and that we should let our own views be known.

Senator EVANS. Well, I think that is appropriate. But, isn't it in our best interest, at least, to try to come together and to be as unified as possible?

I think we all essentially have the same views or pretty much the same views, at least initially, in terms of adequacy of our part of the budget.

Now, the Budget Committee has the responsibility of trying to deal with the total budget, meeting Gramm-Rudman targets, setting marks for each of the functions. But I am distressed that we may not be really setting forth a committee response.

Senator **Sarbanes**. If the Senator would yield, it is my understanding that the chairman's letter would represent a committee position. It might not represent a unanimous committee position, but it would be my perception that the chairman's letter, which I thought was very well done and most sensitive and responsive, to some of the concerns the Secretary expressed here this morning, would be widely supported.

Senator **Evans**. Well, it may well, or it might be strengthened. There are several places in here where perhaps the committee chairman has been a little too kind, to give the Budget Committee some chance to say "Well, maybe we can go in and cut and maybe it isn't as urgent a set of priorities as we once thought."

But it seems to me it would be stronger and it would be better in our action as a committee if we attempted at least to put it together as a committee action.

It is my understanding, Mr. Chairman, that the request from the Budget Committee to each of the other committees, the authorizing committees, was for a detailed report on savings and new initiatives and estimates of budget authorities and outlays.

I am not sure we would disagree much. I think we would perhaps want to send a strong message back.

This is not addressed to this chairman. I don't think it has been our policy in the past several years.

The **Chairman**. We were so lucky to get a bill out at all, because it was the first time in some time.

Senator **Evans**. I remember that.

The **Chairman**. That, in itself, was a triumph.

Senator **Evans**. Yes. That was the authorization bill.

The **Chairman**. Yes.

In this case, I was asked for my views as chairman of the committee. I advanced them. If there are points of agreement, hooray. If there are points of disagreement, let me know, and I could amend my letter, if I agree; or, by the same token, your views should be made known to Senator Domenici, who is the ranking minority member of that committee, because they will also be deciding back and forth.

Senator **Evans**. I just wanted to make sure of our policy. It is different than policies in the Energy Committee, for instance, where it will be a committee action to send back some fairly specific responses.

The **Chairman**. On the three committees on which I serve, I don't recall that we do take committee action—Foreign Relations, Labor and Human Resources, and Rules. So it varies. At least, that is my recollection.

Senator **Evans**. With that housecleaning, Mr. Secretary, let me turn to you and say that this has been an interesting morning, with perhaps too much time spent on maids and housing and not enough on strong policy. But that was not your initiative.

It seems to me that we should be trying for a unified foreign policy, one in which the Congress and the Executive try to get together on policies on which they can agree to the maximum degree possible, and in the past, the times when our foreign policy has been most successful, I think, is when it has been bipartisan and when it has had a healthy respect for the views of our friends around the world who are most directly affected by that foreign policy; keeping in mind that it is always our own interests which have to be first in our priority.

I must say to my good friend from Connecticut, that I cannot think of a time when it wouldn't be appropriate, or it would certainly be a rare and unusual time indeed not to bring in and to have as part of any meeting representatives of the State Department. I have invariably had not only good support from each of those who have been with me on any of the foreign visits I have made, but I certainly have had no inhibitions about saying what I thought it was important to say and expressing the views that I had as a Member of Congress.

Mr. Secretary, would you get for the committee the trends for the last several years, perhaps as early as 1983 or 1984, before we started up, and then after we have come down, in several respects: The effect of the change in the dollar's value vis-a-vis foreign currencies; and any estimate of a total dollar impact that has had on a year-to-year basis, over the last several years, to the operation of all of your activities; and, second, inflation rates overseas in the various countries in which we have operations and the effect that that has had on the real value of our aid over these last several years.

It seems to me that those two elements are often overlooked, even though you have mentioned them in your testimony, and if we could get some estimate, at least, of the dollar impact of that, or maybe in some relationship to the total budget, it would be helpful to show just how far our budget goes or cannot go, with those two changes.

Secretary SHULTZ. I would like to take up your invitation for a thoughtful answer for the record.

Senator EVANS. Yes. I would like one for the record.

[The information referred to appears in the appendix.]

Secretary SHULTZ. Of course, we have worried about those problems. For instance, we created a kind of fund so that when the dollar was getting stronger, we accumulated some money, figuring that the turn might go the other way. But it went so far that we just got wiped out. We are now suffering.

But let me give you a careful response to the letter and describe the things we have tried to do to cope with that.

Senator EVANS. Let me get back to the question of earmarking. It seems to me that we have increased the amount of earmarking and the percentage that earmarking takes of each of our foreign aid budgets. Isn't that pretty generally a true statement?

Secretary SHULTZ. Yes, I think so.

Senator EVANS. We also have a penchant in each session of Congress to add more funds for particular priorities that seem to arise during the course of a budget cycle, and in the last several years, at least, that has resulted in further requests, earmarking, I suppose, but this time earmarking with no money attached.

You have already mentioned the devastation that that has had. I wonder if it would be useful for us, and how you would view it from your perspective, if we put a little discipline on ourselves and said that to the degree we added after a budget cycle and during the course of a fiscal year more for a particular purpose for which no money was allocated, that an even percentage be taken out of each of the other budgets and the earmarks that are now in the budget.

Secretary SHULTZ. Well, that certainly would be a discipline.

Senator EVANS. Would it be harmful at all in terms of your carrying out the foreign policy, or would it be better than the task you find if we give you an additional responsibility with no place to get the money and no ability to deal with the earmarked funds?

Secretary SHULTZ. I don't know.

I observe that in the last Congress, toward the end, that was tried. I may not have this exactly right in my mind, but I think the Senate passed such a bill.

Senator EVANS. That's correct.

Secretary SHULTZ. Then, in the event the shaving off the top of everything just didn't fly in the conference we wound up, as you said, with money earmarked that we did not have. So that leads to the $300 million for Central America that Senator Dodd and others have been so interested in, and with which we agree.

Senator EVANS. Given that Hobson's choice, which would you prefer?

Secretary SHULTZ. Well, what I would prefer is to focus initially on this total, and give us a total that we think we can live with and move around in. There is plenty of room for argument here.

But if the total gets slashed, then we don't even have the basis for an argument or a discussion in this committee about how we should look at the various allocations.

I must say that I have been a little slow in having my light go on. Having served in the Government once before in the days when there were authorizations and appropriations and so on, and you even had a budget by the time the fiscal year started that had been duly gone through, it is just not the same ball game now. The Budget Committee, as such, has an overriding importance.

That is why I place so much emphasis on that total. If we don't have some total like that, we don't have anything to talk about.

So, in that sense, I am very interested in your comment about it.

I was very pleased in the House, that the House Foreign Affairs Committee last Thursday—I spent most of Thursday morning testifying—did give guidance to the Budget Committee that they thought the President's request, that that mark should be that request. They specifically said but we reserve on how it should be allocated. We have a lot to say, but we think the total ought to be there.

Senator EVANS. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, Senator Evans.

Senator McConnell.

Senator McCONNELL. Thank you, Mr. Chairman.

I know you are starting to get weary, Mr. Secretary. So am I, having sat here, too, for a few hours.

As the last one to question you in the first round, let me focus your attention on the southern African states and what the administration's policy is with regard to the so-called front line states.

It seems to me that there are some contradictions. The President has indicated his support for UNITA, for example, and at the same time, the President of Angola, Dos Santos, has pointed out that the southern African initiative would improve ports, communications, and transportation lines through Angola and Mozambique.

Two months ago, as another example, the United States cut off aid to Zimbabwe, in protest of its anti-United States rhetoric. Yet, Zimbabwe would be a major beneficiary of the package.

With that particular backdrop, Peter McPherson announced last week that the administration intended to send $50 million in aid, including 150,000 metric tons of food to Mozambique. He also indicated that he would call on the U.N. and other Western donors to provide additional supplies to Mozambique.

Obviously, there are some apparent contradictions in policy here.

I wanted to ask you if neutrality would be an accurate representation of our policy with regard to Mozambique's civil war.

Secretary SHULTZ. First, a general comment. The situation in southern Africa and within the front line states is complicated and changing. And so, our sort of tactical moves reflect that fact.

Now, insofar as Mozambique is concerned, we are not neutral. We support the Government of Mozambique. We would like to see it stabilize the situation.

It has been a government that was very much aligned with the Soviet Union, although not as much as Angola, and which, as we see it, has been wanting to move away from that. We would like to see that continue.

So, we have had a very modest program to that effect.

Insofar as the distribution of food is concerned, that I think you put more on a humanitarian basis. We have sent food to places where we really don't agree with many governments, but where you see a human need like that, you tend to respond. I think, in Mozambique right now, they do have that problem.

Senator McCONNELL. Has there been a discernible tilt in any direction since Machel's death?

Secretary SHULTZ. Our analysis is that his successor, Mr. Chissano, who, of course, was closely associated with him, has the same sense, that he wants to move away from dependence on the Soviet Union. So we want to encourage that and work with him.

Senator McCONNELL. With regard to the 150,000 metric tons of food that Mr. McPherson was talking about, do you know if that is coming from surplus stock in this country?

Secretary SHULTZ. I am not in a position to answer that concretely.

Senator McCONNELL. Does anybody here know the answer?

Secretary SHULTZ. Can I supply a response for the record on just how that would work?

Senator McCONNELL. Would you, please.

Also—and you may not know this, Mr. Secretary—but could you or someone in the Department let me know how it is going to be administered, because there are congressional restrictions limiting United States aid to Mozambique's private sector. Apparently we are not supposed to deal with the government in this regard, and I need to know how this would square with that congressional prohibition.

[The information referred to appears in the appendix.]

Senator McConnell. In a recent briefing, State Department staff indicated that aid to Zimbabwe had not "exactly been cut off."

What is the status of our assistance to Zimbabwe?

Secretary Shultz. Well, we have reduced it gradually over a period of time. Some of the rhetoric used recently was particularly upsetting. And exactly what is the level of it at this moment, I cannot tell you off the top of my head. But it has come down very substantially.

Now, we have, at the same time, of course, continued to have conversations with the Government of Zimbabwe, as do Members of Congress, and we are assessing that situation. Certainly we wish to have a strong and constructive relationship with Mr. Mugabe and his government, and maybe we can reconstruct that.

Senator McConnell. The Secretary of the South African Development Coordination Conference, a Mr. Makoni, recently noted that 36 percent of the $5 billion sought for regional development had already been committed. But he said the problem they were having was in using the money.

In addition, a representative of a regional business consortium and a businessman based in Zimbabwe told staff here last week that United States funds were, interestingly enough, not important to regional development, but that the United States political stance was more critical.

If some of the players in the field are stating that U.S. aid is not critical to regional development, I am wondering what you think is a credible justification for the half billion dollar appropriation over the next 5 years that the administration would like to see.

Secretary Shultz. Southern Africa is an area where the United States has not been in a predominant role, and others, mainly European countries, have historically played a major role in that region.

So, it would not be surprising that you would see a continuation of that.

I don't think we should be interested in working places only where we have the critical role to play. We want to be part of something constructive, and to the extent that there are many others involved, I think that is all to the good.

We have that view in many parts of the world, and I suppose, in a sense, our role in starting the World Bank and the other multinational development banks and our participation in them is a way of expressing that fact, that if we can work with others, we are better off that way.

So, whatever assistance we give to the front line states and southern Africa, will only be a fraction of what is given. There is lots of private sector activity there, mostly non-United States. But that does not mean that the United States cannot play an important, constructive, and generally collaborative role.

That is what we would seek to do.

Senator McConnell. Going back to Mozambique, for a minute, just to make sure I understand you, you said it is the policy of the administration to support the Government of Mozambique.

Secretary Shultz. Yes.

We took a strong hand in helping negotiate the Nkomate Accord. Our only regret is that it has not held up better.

I think it is fair enough to say that the evidence is quite strong that South Africa has continued to be a key element in support for the RENAMO groups, contrary to what they are undertaking in the Nkomate Accord.

But what we would like to see, and I think Mr. Chissano seems to be ready to work on, is a better understanding between Mozambique and South Africa and a stabilization of the situation in Mozambique because the country is prospectively good, but presently in tough shape.

Senator McConnell. One final question.

I wonder, Mr. Secretary, if either you or your staff could give us the dollar value of military support from the Soviet Union last year for Mozambique.

Secretary Shultz. We can get an estimate of that. Of course, it has been a primary source of military support for Mozambique.

We have not, of course, given any military support.

Mozambique has had support from European countries, in particular from Mrs. Thatcher's government. But mostly it is Soviet arms supplied.

Senator McConnell. So this is one of those rare places where the Soviets and ourselves are on the same side?

Secretary Shultz. Well, I wouldn't say that. I think they seek to have Mozambique be very much associated with them.

Mozambique has to, in a sense, get arms where it can get them, and has given us a lot of indications that maybe they can move away a little bit. To the extent that we can bring that about, that is one of our objectives.

Senator McConnell. In conclusion, Mr. Chairman, I just wonder if anybody does have that dollar figure of Soviet military support for Mozambique. If not, would you please get that for us?

Secretary Shultz. We will get it. It will probably be a fairly significant number.

Senator McConnell. Thank you.

[The information referred to appears in the appendix.]

The Chairman. Thank you very much, Senator McConnell.

Mr. Secretary, thank you very much.

I am going to submit, if I may, a few questions for the record, particularly concerning the closing of the consulates, where I am owed a letter, and also a question or two on Cyprus and a few others.

I thank you, Mr. Secretary, for having been with us. We will get in touch with Senator Chiles.

This meeting is adjourned.

[Whereupon, at 12:55 p.m., the hearing was adjourned to reconvene at 10:05 a.m., Wednesday, February 25, 1987.]

MULTILATERAL DEVELOPMENT BANKS AUTHORIZATION REQUEST

WEDNESDAY, FEBRUARY 25, 1987

U.S. SENATE,
COMMITTEE ON FOREIGN RELATIONS,
Washington, DC.

The committee met, pursuant to notice, at 10:05 a.m., in room SD-419, Dirksen Senate Office Building, Hon. Claiborne Pell (chairman of the committee) presiding.

Present: Senators Pell, Sarbanes, Zorinsky, Dodd, Kerry, Simon, Sanford, Adams, Helms, Lugar, Kassebaum, Pressler, Trible, and McConnell.

Senator KERRY [presiding]. This hearing of the Senate Committee on Foreign Relations is called to order.

Mr. Secretary, we welcome you to our committee today and we look forward to your presentation on behalf of the replenishments for the Multilateral Development Banks. The chairman, Senator Pell, is not able to be here at the outset of these hearings, but he will be here before long. I think, as you know, he has been a very strong supporter of these institutions over the years and I know looks forward to hearing what you have to say today.

As all of us on this committee know, the Multilateral Development Banks play an important role in the international economic environment. This administration's proposals in support of these institutions include a significant increase in funding for these banks. In addition, the Congress is being requested to grant authority for the United States to join a newly created multilateral development affiliate of the World Bank, the Multilateral Investment Guarantee Agency.

Mr. Secretary, your presence at this hearing underscores the importance of these initiatives. Not a day goes by in which any of us are not reminded of the increasing interrelationship between our economy and the economy of the rest of the world; and the problems of currency stabilization, trade deficits, Third World debt, and our ability to compete in the world are all interwoven.

The role the Multilateral Development Banks have played in the past and must necessarily play in the future will have a very significant impact on economic growth and stability in the international economy. The importance of our participation in the Multilateral Development Banks cannot and should not be underestimated. They represent the burden-sharing within the industrialized West, which is essential to promoting economic growth and stability important to the health of our own economy.

While the banks are not the only mechanism by which economic growth and stability are promoted, as you point out in your testimony Mr. Secretary, they are an important element.

We will now receive the chairman's opening statement.

[The opening statement of the Senator Pell follows:]

OPENING STATEMENT OF SENATOR PELL

The **CHAIRMAN**. Mr. Secretary, it is a pleasure to welcome you today to the Foreign Relations Committee, which does not often have an opportunity to receive testimony from the Secretary of the Treasury. I would expect, therefore, that members of the committee are likely to take this infrequent opportunity to discuss with you not only the administration's requests with respect to U.S. participation in the Multilateral Development Banks [MDB's], but also a wide range of economic issues, including your most recent meeting last weekend in Paris with European and Canadian finance ministers and central bankers.

As you know, this committee is planning an expeditious markup of foreign aid legislation, both multilateral and bilateral assistance requests. In so doing, the committee will have to make some difficult decisions on funding levels for the various programs within its jurisdiction.

I note in the administration's appropriations request for the MDB's that you are seeking a substantial increase in funding for fiscal year 1988 over what Congress allocated for fiscal year 1987 in the continuing resolution—$1.8 billion for fiscal year 1988 versus $950 million for fiscal year 1987. I know your testimony this morning will explain the justification for such an increase, and I also hope that you would present a strong case for the United States becoming a member of yet another MDB facility—the Multilateral Investment Guarantee Agency—at a time when Congress is experiencing increasing difficulty in meeting U.S. commitments to existing institutions.

In addition to discussing the rationale for the particular funding levels contained in the pending request, I also trust that your testimony will highlight the particular benefits which accrue to the United States from participation in each one of the institutions under consideration. Finally, I would appreciate your addressing the steps the administration has taken, in the course of negotiating these replenishments, to address various criticisms leveled against MDB lending practices, including concerns expressed about the environmental impact of such lending.

Once again, Secretary Baker, welcome to the Foreign Relations Committee.

Senator **KERRY**. Before turning to your testimony, Mr. Secretary, let me ask the distinguished ranking member if he has an opening statement.

Senator **HELMS**. Mr. Chairman, I thank you very much, of course. I do welcome Secretary Baker to this committee, but I have got to be candid about it. I regret the subject of your mission.

Once again the American taxpayer is being asked to subsidize his competitors, if not his enemies. As a matter of fact, in one of its recent publications the Heritage Foundation referred to the replenishment of the International Development Association, or IDA, as a "$12.4 billion mistake." And in my judgment, so it is.

I think first we need to ask what is IDA? Well, it is an international lending agency which grants 50-year zero-interest development credits to the world's poorest nations. Now how do these nations become the "world's poorest"?

They got to this sorry state, in too many cases, by misguided, usually socialistic economic policies. A case in point is Tanzania which has run its economy into the ground year after year, yet Tanzania and Ethiopia remain favorites of the International Development Association.

As Singapore's able Prime Minister told Congress 1½ years ago, since the end of World War II developing nations have had two models from which to choose: The first, taken by the United States itself, followed by Japan, West Germany, Hong Kong, and others, has revealed a common reliance on private enterprise and organizing economic activity; the other choice, a socialist choice, has led in every case to mind-numbing poverty and despair.

Having led their people on a long road to nowhere, these countries have come to us for a handout. Now the most obvious example of all of this is the Republic of China, now on Taiwan, and the People's Republic of China on the mainland. The Republic of China, Taiwan, is sitting today on a $50 billion mountain of foreign exchange. The PRC on the other hand, Red China, is tapping IDA for $450 million, over $100 million of which came courtesy of the American taxpayer.

At the same time Communist China is receiving 50 years of zero-interest loans, Communist officials are holding in jail a returned Chinese student who learned about freedom and democracy at the University of Arizona. Mr. Secretary, what an anomaly.

Of particular concern to this Senator are the international trade effects of these subsidized loans. What sense does it make to funnel U.S. tax dollars through multilateral institutions to support the agricultural exports of other nations, especially when American farmers are looking at such hard times?

A case in point is a $350 million loan the World Bank gave to Argentina last year to increase its agricultural exports by $1 billion by the year 1989. Now these exports will go to one of two places, either the United States or to Third World markets.

Mr. Secretary, I do not have to tell you that the IDA-8 replenishment is not a popular subject up here. Congress would not pass separate bills authorizing the last two replenishments. To get them through, they had to be hidden in the continuing resolution or budget reconciliation.

IDA has not changed its ways. It continues to lend money without regard for whether it is fostering economic growth or dependency, and the U.S. taxpayer can no longer afford to subsidize what amounts to frivolous loans to blatantly unfriendly nations.

Thank you, Mr. Chairman.

Senator **Kerry**. Senator Lugar, did you have any comment?

Senator **Lugar**. No.

Senator **Kerry**. Senator Pressler.

Senator **Pressler**. Mr. Chairman, I wanted to make just a few points, if I could.

Let me say, Mr. Chairman, the proposals for a major increase in U.S. contributions to the multilateral lending institutions give me a great deal of concern. For the past 3 years we have witnessed a steadily growing and potentially explosive debt burden situation in the developing nations. Only last week Brazil announced it would refuse to continue paying interest on its huge foreign debt. Others have indicated they might follow suit.

Needless to say, this is an extremely unhealthy situation for the entire world economy. My principal concern, to which I hope the witness will respond, is whether we can solve this gigantic debt burden problem by lending even more money to the developing nations.

In my home State of South Dakota and throughout the depressed Midwestern farm States, thousands of farmers and ranchers have been forced out of business because of low commodity prices, high expenses, and an inability to obtain affordable credit. The farmers in my State are asking me, "How can Congress pour more money into low-interest loans to other nations when farmers are unable to receive similar benefits?"

When I saw the proposed 120-percent increase for the Multilateral Development Banks, including the fiscal 1987 supplemental request, it really astounded me. I realize the entire story here is likely to be complicated, and many good arguments will be presented in defense of this increase, but I hope the witnesses will keep in mind the perspective of our farmers, ranchers, small businessmen, teachers, and workers.

How does one explain, let alone justify, to them a $1.2 billion increase for the MDB's while they are experiencing an economic depression of their own?

Also, Mr. Chairman, I would like to place in the record a report from the Heritage Foundation entitled "Why the Soviets Do Not Belong at the World Bank." I am not ready to endorse this position entirely, but it is something that should be considered by the committee and I would like to place it in the record.

Senator **Kerry**. It will be done so, without objection.

[The statement of Senator Pressler and attachments may be found in the appendix.]

Senator **Kerry**. Senator Simon.

Senator **Simon**. I have no opening statement.

Senator **Kerry**. Senator Sanford.

Senator **Sanford**. No.

Senator **Kerry**. Senator Adams.

Senator **Adams**. I have no opening statement.

Senator **Kerry**. Mr. Secretary, I guess the issue is joined before the fact.

We again welcome you and look forward to your testimony.

STATEMENT OF HON. JAMES A. BAKER III, SECRETARY OF THE U.S. TREASURY

Secretary **Baker**. Thank you, Mr. Chairman.

If the committee has no objection, I would like to ask that my full statement be inserted into the record, and I will summarize it.

Senator **Kerry**. Without objection, so ordered.

Secretary **Baker**. I am happy to be here today to discuss our Nation's stake in international economic cooperation and in the vital role which we think the Multilateral Development Banks play in promoting the national interests of the United States.

As you know, Mr. Chairman, this past weekend in Paris we took another step forward in our efforts to promote closer, more effective coordination of economic policies. A number of our industrial allies committed with us to take actions to achieve more balanced growth, and to achieve a reduction of the serious trade imbalances that exist in the world today. I think these measures should foster greater stability of exchange rates around their current levels.

The MDB's in turn supply a valuable capability for addressing problems of international growth and development in a cooperative and market-oriented fashion. These institutions, as you know well, are the legacy of a group of wise men who offered exceptional leadership in the post war era. The establishment of the Bretton Woods Institutions and their offshoots with their market-oriented focus on investment, on free trading rules, and on open capital markets was an outstanding accomplishment—but it was only the beginning.

Another generation of leaders labored to make these institutions effective, responsive, and adaptive to new problems. Now a new generation of leaders must exert a special stewardship to keep these institutions moving forward and to ensure that their rules remain fair so as to maintain their legitimacy.

I happen to believe, Mr. Chairman, that the United States must be in the forefront of that strategic change. These international institutions offer critical support for the U.S. program to address one of the major challenges of our age, helping developing nations grow out of past problems, including the problems of debt.

Of course success in developing nations means much more than simply high GNP statistics and debt service. Many are nurturing infant democracies, and they are nurturing more tolerant political systems. These people need hope if they are to sustain their efforts.

Therefore it is appropriate for me to start with an overview of the progress that we have made since we launched the program for sustained growth in Seoul, Korea, in October 1985. In a little over a year, many debtors have taken some important steps to increase savings, to increase investment, to improve economic efficiency, to privatize public enterprises, to encourage the return of flight capital, and to bring about a free market system.

These efforts have been strengthened by the assistance of the multilateral institutions. The World Bank has negotiated $2.9 billion in new policy-based loans with 10 major debtors, and has discussions underway on nearly $5 billion in additional policy-based loans.

The IMF has negotiated new standby programs with 8 of the 15 major debtors, including new loan commitments of about $4.7 billion, and the commercial banks are moving to make new loans available as exemplified by recent packages from Mexico and Nigeria.

Mr. Chairman, this is a good start, and we hope for further progress. If the United States is to continue to exercise leadership in addressing these problems, we must be willing to commit our fair share of the necessary resources. The world listens to what we say, but it also very, very carefully watches what we do.

If the United States does not back up its verbal commitments to improve the international economy, then other U.S. pronouncements and principles will be taken less seriously, or they will be dismissed entirely. The word of the United States would be just that, "words." The MDB's are essential to our cooperative efforts to create economic opportunities in the developing nations. It is not only to the advantage of the developing countries, but it is in our best interest as well that their growth is restored and that their debt problems are solved.

We live, Mr. Chairman, in an interdependent world. Millions of Americans depend on trade with those countries for jobs and for income. The MDB's are also very cost-effective, a very important quality at a time of tight budgetary constraints. Each dollar contributed by the United States for MDB lending is multiplied roughly 16 times because the MDB's also receive contributions from other donors, and because the MDB's can leverage this capital through borrowing.

The cost to the United States of trying to duplicate this funding through bilateral assistance would be absolutely prohibitive. The vast bulk of MDB lending supports nations of importance to the United States. In recent years, over half of MDB lending went to countries that we have targeted for bilateral aid. Almost an additional one-third of MDB funds went to nations of great strategic significance to us: Mexico, Brazil, and Argentina, for example, but to which we cannot afford to give bilateral aid.

In the recent past, the United States has convinced the MDB's and other shareholders to place greater reliance on the private sector, and to advocate difficult policy changes that are central elements of our debt strategy. We have also been influential in moving the MDB's away from loans that will conflict with the legitimate concerns of U.S. producers. In accordance with U.S. legislation, we have successfully resisted MDB projects that would promote the production of commodities which are already in surplus or further depress world prices and injure U.S. producers.

Very few of these types of projects have been presented to the MDB's in recent years. We will continue our best efforts to persuade the banks to pursue sensible and sound lending policies.

Mr. Chairman, the MDB's warrant your active support both with the authorizations now before your committee and through the budget and appropriations processes. As you may know, we have not been meeting our appropriations obligations. The MDB's suffered sharp budget cuts in the last two fiscal years. Consequently, we are seeking a fiscal year 1987 supplemental that partially clears up these shortfalls, and a fiscal year 1988 request that will meet our regular annual payments.

We believe the President's budget would allow us to fulfill our leadership role, and we are seeking your support.

Let me touch briefly on five authorization matters before you, and each of these is a result of an extensive multilateral negotiation conducted in the context of congressional consultations.

First, we are seeking an authorization for the eighth replenishment of IDA or the soft-loan window. This authorization can be met through three annual contributions of $958 million. IDA is instrumental in providing high-quality lending to support growth and development in the world's poorest countries, many of which are in sub-Saharan Africa. We believe we have made it more effective by achieving significant reforms through the course of last year's negotiations for this replenishment.

IDA VIII will be giving priority to sub-Saharan Africa, creating a vital source of new resources. From 45 to 50 percent of the IDA VIII lending will be for that region so it can have a fair chance to fight back against famine, against disease, and poverty through basic market reforms. I believe this package deserves strong bipartisan support.

Second, the administration strongly recommends the creation of the Multilateral Investment Guarantee Agency. This cost-effective operation requires authorization and a U.S. subscription of $222 million of which only $44 million is budget authority. MIGA will promote reform of investment policies in developing countries, enhance the private sector's contribution to the development process, and encourage the flow of equity capital to developing countries. It promises to be an important instrument to spur economic growth.

Third, the administration proposes authorization of a U.S. contribution to the Asian Development Fund of $584 million over 4 years as our part of ADF's $3.6 billion replenishment. The administration achieved several important reforms in these replenishment negotiations including the increased emphasis on the private sector, a greater ADF effort to seek policy reforms in borrowing countries, the establishment by the ADF of explicit strategies to guide lending in each country, more rigorous lending terms in line with IDA, and internal organizational changes to improve loan quality.

Fourth, the administration is seeking authorization for a $719 million U.S. participation in the African Development Bank's 5-year $13 billion capital increase. Only $45 million of the U.S. share will require budget authority, or about $9 million annually.

During the negotiations for the capital increase we secured several reforms here, as well. First, the bank will develop strategies for each country as the basis for its lending operations. Second, as recommended by the GAO, the bank will strengthen and enhance the independence of postproject evaluations. And third, the Bank will enhance coordination with other donors, especially the World Bank.

Finally, the administration is seeking authority for a minor item concerning the Inter-American Development Bank, permission to support merger of the ordinary and interregional capital accounts of the Inter-American Development Bank to make more effective use of its existing capital.

Mr. Chairman, in closing let me try to put our request in perspective. I full well recognize that Senator Helms and Senator Pressler have suggested that the MDB's do not have a strong national constituency to press for financing through the give and take that characterizes the legislative process in our country. I know, too, that there is a strain of American political culture that distrusts international multilateral institutions.

There are, however, other resilient American traditions that I think are worth considering.

First, we have always been proud of the American experiment and of the model that it offers to other nations. Today, the MDB's are helping us to promote market-oriented solutions around the world. Market-oriented solutions is our model and we should not let it fail for lack of our commitment.

Second, Americans are a pragmatic people. We rely on tools that work. The MDB's are efficient and they benefit the United States. Our contributions to the MDB's are repaid to us in numerous ways. The MDB's also operate effectively in a complex world, in part because their multilateral nature enables them to take actions that would be resisted if the United States pursued them unilaterally. And where MDB operations need reform, as some definitely do, we are making substantial headway.

Third, Mr. Chairman, the United States has always been known as a country that meets its obligations, and because we do we can better persuade others to meet theirs. Our national self-respect and our international leadership depend on our willingness to fulfill this basic responsibility. In today's international environment, our leadership is as important, if not more important, than ever.

I appreciate, Mr. Chairman, that the Congress faces difficult choices. As you proceed, I urge you to recall how important the MDB's are to America's long-run success and to our own economic interests. I will assist you to the very best of my abilities.

Thank you.

[The prepared statement of Secretary Baker may be found in the appendix.]

Senator **KERRY**. Thank you very much, Mr. Secretary.

Senator Kassebaum, do you have any opening comment you wish to make?

Senator **KASSEBAUM**. No.

Senator **KERRY**. Fine. We will proceed under the customary 10-minute rule.

I will open, Mr. Secretary, with a question. It is my understanding that the administration is prepared to accept a $26 billion capital increase in the replenishment negotiations for the Inter-American Development Bank, and I would like to juxtapose that with the considerable doubt that was expressed by the administration when it first came into office regarding the utility of the multilateral development banks in general, but specifically that institution.

I wonder if you would share with us as you have I think somewhat in your testimony, and perhaps extend that a little bit, as to what it is that has caused the administration to in effect shift its position and become such a strong advocate at this point in time?

Secretary **BAKER**. Are you talking about the IDB now?

Senator **KERRY**. That is right, the Inter-American Development Bank, the $26 billion replenishment, generically.

Secretary **BAKER**. I think the information you have is wrong, Senator. We are not ready to accept that replenishment. We are still negotiating for changes in——

Senator **KERRY**. I understood that it was hung up over one change, and that was the issue of the voting procedure. Is that incorrect?

Secretary **BAKER**. That is a very major thing.

Senator **KERRY**. But that is the one——

Secretary **Baker**. That is the principal one, yes, sir. There are others: reorganization, sectoral lending, country-specific programs. So we are by no means ready to recommend the replenishment of the IDB. We have simply not completed those negotiations for policy reforms.

Senator **Kerry**. Perhaps it would be helpful for us to understand specifically what are the reforms or what are the criteria that you are looking to see satisfied that would in effect bring the administration to say it would accept that particular replenishment?

Secretary **Baker**. Well, we are looking for the adoption of some policy conditionality guidelines in lending. We are looking for the creation of individual country strategies which can guide the bank's lending program. We are seeking restructuring of some of the operating departments to facilitate the implementation of the first two reforms that we want. And then finally, and the one that is the big ticket item, is that we are looking for a change in the majority needed for decisions to 65 percent of the voting power to ensure that the loans will address critical obstacles to growth and will contain the appropriate policy conditionality.

Senator **Kerry**. It is fair to say, then, that there is some distance yet to travel before you would in effect want that replenishment to go forward? Is that correct?

Secretary **Baker**. Yes, sir. Absolutely.

Senator **Kerry**. What prognosis would you attach to the possibilities of that happening in short order?

Secretary **Baker**. Well, as I indicated in my summary statement, Mr. Chairman, we are pleased with some of the reforms that we have been able to negotiate in some of the MDB's. We are frankly disappointed that we have not been able to make more progress with respect to the IDB, but we have not, and I really cannot give you a percentage. I cannot quantify the chances of success. All I can tell you is that we are going to keep after it and see if we cannot resolve this problem, and we are going to do it before we bring to you a recommendation for increased funding.

If we cannot resolve it, we will not bring one up here.

Senator **Kerry**. Now, Mr. Secretary, in your prepared statement to the Senate Finance Committee last Thursday, you indicated in your discussion of the Third World debt issue that, and I quote from your testimony, "Despite the relatively short period which has passed since we proposed this debt initiative, considerable progress has been made."

On the next day, as Senator Pressler has pointed out, it was announced that Brazil had suspended interest payment on its $108 billion foreign debt. In addition, I gather other countries such as Mexico, Argentina, and Peru are threatening to or are poised to do the same thing.

Therefore, I suppose my question is, How do you square the question, or how do you measure progress against those particular both steps taken as well as steps threatened?

Secretary **Baker**. Well, the progress has been substantial. This is not the first time that Brazil has taken this action. As I indicated in testimony yesterday to the Foreign Operations Subcommittee of Appropriations, the matter in our view will be successfully resolved in the context of negotiations between Brazil and its private creditors.

Brazil is not simply declaring a moratorium on its debt; it is saying that with the current condition of its reserves it simply cannot pay for the time being. It has been extremely nonconfrontational in the announcement. It has in effect said that it wants to sit down with its creditors and resolve the issue in the context of renegotiating that debt.

Now I can give you chapter and verse here of the progress that has been made on the debt initiative since October 1985 and be delighted to do that, if you want. You cited Mexico as an example of a lack of progress, but it really is a good example of progress. They are just about to close a $7.7 billion new loan package for Mexico. Mexico has adopted some rather substantial reforms.

I mentioned a new loan package to Nigeria. The multilateral institutions are certainly doing their share as far as the debt initiative is concerned, and many, many other debtor countries have adopted economic reforms. I am prepared to go into those chapter and verse here this morning, if you would like me to do it.

Senator KERRY. Well, I do not think it is necessary to do it here now, but I think it would be helpful perhaps for the record if you were willing to have that submitted in a more detailed fashion. I think it would be good for the record to show that, and I think we would appreciate having that.

Secretary BAKER. In fact, maybe I should also mention some general factors which I think represent progress. That is, that the total debt is growing at a far less rapid rate than it was before, than it was say going back to the 1981–82 timeframe. The interest-payments-to-export ratio has improved substantially for most of the major debtors. The debt-to-GNP ratios will remain flat or improved for nine countries.

We are beginning to see a real market being created for debt equity swaps, and obviously equity is a better form of new capital flows than debt since you do not have to pay interest on it. All in all, Senator, as my statement indicated, we think good progress has been made. There is still a long way to go, but we should not lose sight of the fact that this debt problem was created over a period of 10-plus years, and we are not going to solve it in 1, or 2, or 3. But we do need to keep working at it, and so far the case-by-case approach, the approach that we have suggested, offers the best hope for a solution.

Senator KERRY. Well, I welcome that answer. Yesterday Chairman Volcker before the Senate Budget Committee suggested that Government officials and bankers were "suffering from battle fatigue" in dealing with the persistent Third World debt problem, and he suggested that the negotiations needed in some way to be reinvigorated.

I wonder if you would care to comment on his suggestion about reinvigoration, and where you would judge this issue of the battle fatigue?

Secretary BAKER. Well, I do not agree with that. We have been at it now for 4½ years, and I know he thinks we have been making some progress. I also know that he feels strongly that this is the best approach. It was an approach that was worked out collaboratively between the Treasury Department and the Federal Reserve, and I know he feels strongly that way.

I would not quarrel with what he said. I do think that we should bend every effort to solving the problem. We have had discussions as recently as Saturday and Sunday in the multilateral framework over in Paris about the problem on a country-by-country basis, so I do not disagree with what he said.

Senator **Kerry**. Regarding the meeting in Paris, would you characterize the existence of something different in that meeting from previous meetings? Would you say that you accomplished something that is somehow different, and more lasting, and have we reached a level for the dollar with which you are satisfied at this point in time?

Secretary **Baker**. Well, in characterizing the meeting, let me just simply say that I see that as another step forward in the process of international economic policy coordination and cooperation, and a significant step forward. I think others would view it in the same way.

I think it is significant that the communique to some extent employed some language that has not been used before, that has not flowed from other similar meetings. This would be my answer to the last part of your question. The six countries represented there agreed to act cooperatively to foster stability of exchange rates around current levels.

Senator **Kerry**. Do you see that—just one last question—do you see a circumstance in which you might push for a further devaluation?

Secretary **Baker**. Well, I do not like to speculate on what we might or might not do. I do not think it serves any useful purpose, and if I answered your question one way or the other half the people here would leave the room so they could file, and that would not be productive. [Laughter.]

Senator **Kerry**. I am not sure. It might be very productive.

Secretary **Baker**. It depends on whether you have got your order in, right? [Laughter.]

Senator **Kerry**. Senator Helms.

Senator **Helms**. Thank you, Mr. Chairman.

Mr. Secretary, is my understanding correct that prior to IDA VII your predecessor, Don Regan, issued a report declaring that future U.S. policy would be to reduce funding, future IDA funding levels?

Secretary **Baker**. I think that he issued some report to that effect prior to IDA VII, Senator.

Senator **Helms**. Right.

Secretary **Baker**. And we did in fact reduce the figure.

Senator **Helms**. Now you are asking for a 27-percent increase over IDA VII. Is that not true?

Secretary **Baker**. No, sir, that is not correct. The fact of the matter is we are asking that the U.S. share of IDA VIII be reduced from 25 percent of the total to 23 percent.

Senator **Helms**. What are the dollars, then? We may be comparing apples and oranges.

Secretary **Baker**. The dollar amount of IDA VIII, the U.S. contribution is $958 million for 3 years. The dollar amount of IDA VII, U.S. contribution was $750 million a year for 3 years. IDA VI, of course our contribution was considerably greater. It was over $1 billion.

The U.S. 1-year contribution to IDA VI was $1.1 billion. IDA VII, Senator, was $750 million. IDA VIII is $958 million.

Senator **Helms**. $958 million?

Secretary **Baker**. Yes.

Senator **Helms**. And IDA VII was what?

Secretary **Baker**. IDA VII was $750 million.

Senator **Helms**. Is that not about 27 percent——

Secretary **Baker**. Per year.

Senator **Helms** [continuing]. Mr. Secretary? Is that not a 27-percent increase in dollars?

Secretary **Baker**. I have not run that calculation.

Senator **Helms**. Well, I have.

Secretary **Baker**. I will accept that.

Senator **Helms**. You said it was not right.

Secretary **Baker**. What I said was not right was that——

Senator **Helms**. We do not tax the U.S. taxpayers to fund this mess with percentages. We tax them for dollars, and that is the point I am making.

Well, last year the U.S. representative abstained on a vote for a loan to Chile, the grounds being for the abstension that there were alleged human rights violations by the government there, undoubtedly stemming from that burning incident down there, which even the lawyers for the boy's family now acknowledge that he was burned by an incendiary that he had strapped around his own waist, a fact that is not reported by the news media in this country.

Now what would be the administration's position on an amendment to this legislation which would require the United States to abstain or oppose loans to Communist China, at least until, for example, the arrested student, Yong Wai, is released? Are you familiar with Yong Wai?

Secretary **Baker**. No, sir.

Senator **Helms**. Well, it is an outrageous case. Now do you think we ought to treat Communist countries pretty much the same way we do in terms of violations of human rights?

Secretary **Baker**. I think we ought to treat all countries the same way.

Senator **Helms**. Well, you would agree that we are not doing it, though?

Secretary **Baker**. Senator, that is not a determination that we make in the Treasury Department.

Senator **Helms**. Well, it should be.

Secretary **Baker**. Well, the way it works is that the State Department is responsible for making the human rights determination. We are responsible for making a judgment with respect to the economic and financial considerations surrounding a loan, but we are obligated in light of the law, as I understand it, a law passed by the Congress, to heed the determination of the State Department when they say that the country will not qualify on human rights grounds, and we do that.

That is why we voted against that Chilean loan, because we were implementing a law passed by the Congress.

Senator **Helms**. Well, let us go down to Argentina for just a minute. How can we change the policies of the World Bank to prevent additional loans similar to the Argentina agricultural loans of last year?

Secretary **Baker**. Well, I think in fact there has been a change, Senator, if I might suggest. That is the only loan I think that anybody can point to that might even questionably be argued to be supportive of the production of commodities in surplus. We voted against a loan to Brazil, an agricultural extension loan. The very same month we voted for that Argentine loan you are talking about, we voted against a Brazil power sector loan.

So, I do not think there has been any since that one, and our policy is to vote against loans that would be supporting the production of commodities in oversupply. We do not do that.

Senator **Helms**. I take it you would not object, then, to us putting a little old amendment in to lock that door statutorily, then? You would not mind that? You would support an amendment in that regard just to preclude the unlikely occurrence of it?

Secretary **Baker**. I think reasonable minds can differ with respect to whether or not the loan would in fact be to support commodities in oversupply. So I do not support that—and I really think that is going to be something that is very hard for you to micromanage up here. Somebody has to make that calculation and that determination, and I really believe that the executive branch is best equipped to do that.

But I have told you what our policy is, and we are very serious about that.

Senator **Helms**. We will see about that.

I just have one more question, Mr. Chairman, and I will yield back such time as I have remaining. Last year the Treasury Department and the MDB's engineered yet another bailout of the pregovernment of Mexico. I might say parenthetically, Mr. Secretary, that I like you; we have been friends for a long time. We happen to disagree on this aspect.

But what we are doing with this sort of thing is far short of being benevolent, because in every country, Mexico being a good example, is a substantial body of opinion that socialism ought to be eliminated, eradicated, and what we are doing is propping up the pregovernment, the one-party government that has been in control there for decades.

Now the bailout 4 years ago, I think it was, what it did do in terms of the economy because you have still got the socialism controlling, you have got the corruption in the government, you have got all the rest of it, and you still have in Mexico an inflation rate of over 100 percent. I submit, Mr. Secretary, that we have not done much for the people of Mexico when we have taken away the ability of those who believe in the free enterprise system, having seen it in the United States—and there is a substantial body of opinion down there.

Now I just ask, and I do not do this in a hostile way because you are doing the best you can with your job, but I just wonder if you would explain to me what economic sense did it make to add $12 billion of debt to a country which will never pay its existing debt, and locking in that pregovernment, that one-party government?

Secretary **Baker**. Without speaking to the political question, Senator——

Senator **Helms**. We have got to speak to it.

Secretary **Baker**. Well, that is not what I am supposed to do in considering the economic and financial——

Senator **Helms**. We have got to consider it, Mr. Secretary.

Secretary **Baker**. Well, but I am not really supposed to be, that is not really what I am supposed to be giving consideration to. Let me speak to it on the economic and financial grounds, if I might.

Mexico was doing a pretty good job until the bottom fell out of oil prices. When I say a pretty good job, I mean they were meeting their obligations. They were paying interest, and they did not have 100 percent inflation. They did not have a perfect economy by a long, long shot.

The only way countries like Mexico, like Argentina, like Chile are going to earn their way back, Senator, is if we make funds available for them to support the free-market economic reforms that are needed so they straighten up their economy.

I realize you cannot totally separate the economy and the political system, because it is hard to generate a free economy if you do not have a free and open political system. I certainly understand that. But I do not think there is any solution whatsoever to this debt problem unless we make sure that we have funds available to these countries who are willing to adopt the kind of free market economic policies that you and I believe in, and that President Reagan has brought to this country. They need to have the assurance of capital flows to support that—whether it is a Mexico, whether it is a Chile, whether it is an Argentina, or whether it is the Philippines.

Senator **Helms**. Well, I have gotten the yellow flashing light there.

You were talking about your job being to do this and that. Does not your job include finding out whether these loans can and will be repaid?

Secretary **Baker**. Sure. That is a part of the calculus.

Senator **Helms**. I have got to submit to you, Jim, that the political situation in so many of these countries—and I use Mexico as an example, but it is not the only one—the political situation in these countries is the very thing that is blocking the prospects of repaying the loans, not to mention stabilizing those economies.

Now as far as Chile is concerned, I do not know of a country that has a more free enterprise economy than that one. They do not have any socialism at all down there, and they ought to be recognized at least for that.

Thank you.

Senator **Kerry**. Thank you.

Senator Sarbanes.

Senator **Sarbanes**. Thank you, Mr. Chairman.

Mr. Secretary, welcome. It seems to me that one of the strongest arguments for U.S. participation in the Multilateral Development Banks is the leveraging effect of our contribution since, depending on our level of participation, it is multiplied a number of times over by the contributions of other countries.

Do you have there for each of the authorizations you are seeking the ratios of U.S. participation?

Secretary BAKER. You mean what percentage that represents of the total? Or how much leverage would be available through borrowings by the MDB's?

Senator SARBANES. No, what percentage our contribution represents compared to what other countries are putting in.

Secretary BAKER. I do not have it right here before me, Senator, but I can get it for you.

Senator SARBANES. All right.

Let me pursue it, though. I take it from the answers that you gave before, that the U.S. percentage of the IDA replenishment is dropping from 27 to 23 percent. Is that correct?

Secretary BAKER. That is correct. From 25 to 23 percent.

Senator SARBANES. Is it your view that the percentage contributions currently being made to these multilateral institutions accurately reflect the relative strengths of the national economies that are making the contributions?

Secretary BAKER. I am not sure that they accurately reflect it, Senator Sarbanes, but I think we are moving more and more in that direction. For instance, Japan is contributing a significantly increased share in IDA VIII as their economy has grown. I can give you the percentage of the U.S. contributions now, if you would like to have it.

Senator SARBANES. It would be helpful, yes.

Secretary BAKER. In IDA, our original contribution was 45 percent of IDA back in 1961. We have steadily declined to the point that in IDA VIII we will contribute 23 percent, if we contribute the full amount. And that decline has taken place each time except the second and third replenishments when we had 40 percent in 1968 and 1971.

Do you want it for the others?

Senator SARBANES. Do you have it for the others?

Secretary BAKER. I have it for the ADF, the Asian Development Fund. Our original contribution was 29 percent back in 1973. That has steadily declined to the point that today our contribution represents 16 percent.

I have it for the African Development Fund. There our original contribution was 12 percent in 1973. It went up as high as 17 percent in 1979, and has declined to the point that it is now 15.4 percent.

With respect to the soft-loan window of the IDB, our original contribution was 69 percent in 1959 and that has steadily declined to the point that in 1983 in the seventh replenishment our share is 41 percent.

Now those are the soft windows. I could give you the hard windows, as well, if you would like to have it. They show the same picture.

Senator SARBANES. Let me ask you this question. Are there critical points where a reduction in our contribution significantly impacts on our ability to influence the decisionmaking of the institution?

Secretary BAKER. Yes, sir. I cannot tell you what those points are, specifically, because they would vary from institution to institution. But for instance in conjunction with IDA VIII, the negotiation of IDA VIII, we gave up shares in the World Bank to Japan, to Italy, to Canada, among others, in recognition of their increased contributions to IDA VIII.

Now it did not affect our veto power, because we give up those shares only on the condition that the veto amount is lowered from 20 to 15 percent. So we will retain our position of influence from that standpoint. But the fact of the matter remains that to the extent that we write off these organizations, or write them down, or do not participate, we can no longer be as influential and effective a player in getting reforms in these institutions—not to mention the fact that at some point our status as a world power would begin I suppose to be questioned by some because that status reflects contributions of an economical nature, as well as, of course, contributions of a military nature.

Senator **Sarbanes**. Could you submit to the committee a memorandum discussing this aspect of the U.S. contribution?

Secretary **Baker**. Yes, sir.

[The information referred to appears in the appendix.]

Senator **Sarbanes**. In other words, on the one hand if we can lower the U.S. share, proportionate to relative economic strength, of course the leveraging effect of our dollar increases. On the other hand, I gather that at some point given the structure of the institutions, we begin to affect markedly our ability to influence the decisionmaking of the institution.

I think we need some sense of what those ranges are as we try to deal with this issue.

Secretary **Baker**. Well, we do influence markedly our ability to influence the institution, and I will be glad to furnish that memo.

Let me just say one final thing, Senator, if I might. Every country, every industrialized country out there, save the United States, wanted to see a larger IDA VIII than we were willing to bring to the Congress.

Senator Helms has pointed out that this IDA VIII is larger than IDA VII, and indeed it is, but it is nowhere near as large as the other industrialized countries, and certainly the lesser developed countries thought was appropriate.

We restrained to some extent the expansion of the amount, and we agreed to an IDA VIII level of $11.5 billion. Now it ultimately comes in at $12.4 billion through the voluntary contributions of other countries, Japan in particular.

So, the point I want to make is we did and do in fact consider the budgetary constraints that are affecting us when we bring these numbers to you.

Senator **Sarbanes**. How much of a replenishment did most of the other countries favor?

Secretary **Baker**. They wanted something in excess of $12 billion. They wanted at least $12 billion, and would have preferred something in excess of $12 billion. Our view was it would be foolish, if not suicidal, for us to come up here in light of the current budgetary constraints and bring you a $1 billion a year request. So we kept it under $1 billion.

But these are the tradeoffs that we are faced with in trying to maintain the U.S. position of leadership in international economic affairs, and it is very important that we maintain that position of leadership—unless we are willing to throw up our hands and say it is time that we acknowledge we are a second-rate power around the world.

We still happen to be the world's largest economy by a substantial margin.

Senator **Sarbanes**. Now, Mr. Secretary, on page 3 of your statement you say, "Over past decades, largely at U.S. prompting, Europe and Japan have assumed a larger share of the financial burden of making the international economic system work."

I think there is a perception on the part of many that neither Japan nor West Germany, given the strength of their domestic economies and their relative strength in the world economy, have assumed a share of the financial burden commensurate with that national strength.

Would you have sharp disagreement with that perception?

Secretary **Baker**. Well, we have of course been engaged for some time in discussions with those two countries particularly to get them to agree to measures that would in effect stimulate growth in those countries. We were able to achieve some of that at our meeting in Paris last weekend, and both Germany and Japan agreed to certain new actions—and they were new actions that they had not hitherto been willing to agree to.

Senator **Sarbanes**. What about pushing them to take measures to address the Third World debt problem by circulating some of the surpluses they have on the current account, since of course most of the world's current account surplus is in those two countries?

Have they been pressed to do that?

Secretary **Baker**. Yes.

Senator **Sarbanes**. Because quicker growth in their own countries, according to the figures I have seen, might make a contribution of nearly $10 billion to the U.S. trade deficit. And if they would play a larger role in helping to put a growth pattern back in place in the developing countries, that in fact might have a much greater impact on the U.S. trade deficit.

Secretary **Baker**. Yes, that's correct, Senator. That is why I think we see greater participation by them in IDA VIII, voluntary if you will, than we have seen before. In addition to that, we think and hope that we will ultimately be successful, in negotiating a limitation on the use of mixed credits, tied aid. All of this was a part of the discussions we had with them about our giving up shares in the World Bank, their picking up some of those shares in exchange for taking these other actions, all of which would move in the direction you have suggested.

Senator **Sarbanes**. Well, Mr. Secretary, I want to commend what you have done. I just think we need to go further in pressing for an assumption by Japan and West Germany of international responsibilities, particularly when one considers that the burden for carrying the security umbrella falls largely on us. Whereas we're giving about 6.5 percent of GNP into the defense budget, the West Germans are at 3.5 percent, and the Japanese at 1 percent.

I am not necessarily pressing them to rearm, but it seems to me reasonable to press them very hard to assume greater burdens in the international economic and financial arena.

Senator SIMON. Mr. Chairman.

The CHAIRMAN [presiding]. Senator Lugar.

Senator SIMON. Mr. Chairman, I am going to have to go to a markup and I am not sure I am going to get back. I would like to submit some questions to Secretary Baker for entrance into the record, if that is agreeable with the Secretary.

Secretary BAKER. That is fine with us, Senator Simon.

Senator SIMON. Thank you.

[The questions of Senator Simon appear in the appendix.]

Senator ADAMS. Mr. Chairman, I would like to make the same request. We have a markup that we have to attend. I would request permission that we might submit some questions to the Secretary in writing.

The CHAIRMAN. That is fine.

[The questions of Senator Adams appear in the appendix.]

The CHAIRMAN. It is requested that the questions be answered within the week, if possible.

Senator Lugar.

Senator LUGAR. Thank you, Mr. Chairman.

Mr. Secretary, for several years relevant appropriation bills have required you to instruct the U.S. directors of the various banks to "use the voice and vote of the United States to oppose any assistance for the production of any commodity for export if it is in surplus on world markets and if the assistance will cause substantial injury to U.S. producers of the same, similar, or competing commodity."

You have already addressed this issue, but for the sake of the debate that clearly will occur in this committee and on the floor, would you provide for the record a complete list of all occasions on which either the voice or the vote of the United States has been used to oppose such assistance? And second, a list of those occasions on which the loans have actually been denied as a result of our efforts in this regard?

Secretary BAKER. I will be glad to, Senator.

[The information referred to appears in the appendix.]

Senator LUGAR. I ask this question because it obviously is an important one with regard to agricultural America, as well as others who are deeply concerned about our advocacy. As you pointed out, there is the one loan that could be rationalized to Argentina.

On other occasions, we have rigorously opposed it, but I think it is important to set it forth.

Secretary BAKER. I will be glad to.

Senator LUGAR. Mr. Secretary, a number of developing countries have adopted policies which exclude foreign firms from their domestic markets. What efforts are being made to ensure that as a part of MDB lending policy such barriers are dismantled?

Secretary BAKER. Well, we take into consideration and instruct our ED's to consider in deciding how they are going to vote on a loan, Senator, both investment restrictions, trade liberalization measures, and other economic reforms.

The fact of the matter is, we have been very supportive, as you know, of more and more structural adjustment lending by the bank, less and less project lending because we think it is important that these economies restructure.

One of the main things they need to do is open up their investment regime to foreign capital so that they do not have to borrow money, so that it comes in through the equity channel.

Senator LUGAR. Would it be possible to furnish for the record a list of those occasions on which we have weighed in heavily, or in any way, to try to advise this restructuring and specifically access on a reciprocal basis to those economies? I think that information would be useful, once again, for this committee and in the debate we shall surely have on the floor with regard to openness in our advocacy and our effectiveness.

Secretary BAKER. I will be glad to, Senator.

[The information referred to appears in the appendix.]

Secretary BAKER. I would like to make the point that prior to the announcement of our initiative in Seoul, Korea, in the fall of 1985, the World Bank was not really doing any lending for reform of the trade and investment sectors in these countries. Now they are making specifically trade liberalization loans and loans to reform investment regimes.

Senator LUGAR. I think this is very important, and I think we just need to know more about it.

Let me ask about small firms within MDB projects. It is apparent that large firms have been able to take advantage of MDB procurement, but small firms apparently have not fared as well. Would you support placing a foreign commercial service officer in the U.S. executive director's offices in those institutions as a means of improving the prospects of small U.S. firms in obtaining MDB procurement contracts? Or if you were not in favor of that course of action, what record do we have of assisting small firms? And what should we do about it in the future?

Secretary BAKER. Senator, we have been working on this problem with the Department of Commerce for some time. I am not sure that putting a commercial officer in there would be the answer. It has not necessarily been the answer to some of our trade problems around the world by putting foreign commercial officers in our Embassies, and that sort of thing.

I think it is more a matter of sensitizing our ED's to the problem and making them more conscious of the importance of doing this. We would prefer to approach it from that standpoint, although we would not categorically oppose the idea. I mean, we would be glad to consider it. I am just not sure that is the answer, to be very frank.

Senator LUGAR. Would you give any thought to what might be the answer? In other words, it appears to me that there is a problem here in terms of small commercial firms. While admittedly putting a person there might not be the answer, I think some emphasis on our part with regard to these banks is important.

Secretary BAKER. Well, I think it is important that we let the banks know that we are interested in seeing to it that our small private sector firms participate to the same extent that our large ones have an opportunity to do. That, we totally agree with.

I do not know that putting a commercial officer in the ED's office would really accomplish that, necessarily, although we are certainly willing to consider it.

Senator **Lugar**. Let me pursue now a much broader question that probably does not admit to answer in this hearing.

Senator Sarbanes was discussing in a way the reciprocal responsibilities we have in the defense of the free world. Without going into all the differentials of defense burdens, it is obvious that the U.S. devotion to the defense of the free world is substantial. Reciprocally, we would hope that other nations would play a role, if not in defense expenditures, in other ways; and Senator Sarbanes mentioned that a portion of the surplus they have in current trade might be better devoted to the things that the Multinational Banks are seeking to achieve.

This is a problem that goes well beyond your responsibility, but is it not important at some point that we try to draw together those basic nations that have responsibilities in the free world and try to get a better handle on our shared roles and responsibilities?

I know you chip away at this. Clearly when you talk to the Japanese and the Germans they understand the notion of burdensharing. But as you have said today, you have an economic role to play. You are not the Secretary of State or Secretary of Defense, or President of the United States, but any coordination of all these responsibilities is missing.

These banks themselves are extremely important, but it just appears to me, looking at the figures, that the Japanese themselves could fund almost all the banks by themselves. Is it not legitimate to ask, given the disproportionate share of capital that we expend relative to Japan in the defense of the Pacific region, why we should be agonizing over contributions to the multilateral banks?

How can the administration as a whole begin to address this problem of what should be the appropriate division of labor?

Secretary **Baker**. Senator, I understand what you are saying, and I think it is an absolutely fundamental question that at some point we need to address. But you cannot address it, really, I do not think from the economic standpoint until you make a determination with respect to whether or not those expenditures, defense expenditures that we are making are in effect for our security or somebody else's security, as well as ours.

And if it is the latter, then it would seem perfectly reasonable that the American people would expect those countries to bear some portion of that expense, or help us out in some other areas, which is what you are suggesting. I would tend to agree with that.

I am not competent to make—I do not have the sole leadership on making the decision with respect to whether or not those national security expenditures are for the United States as the national security community would tell you, or whether they are for the United States and others as well. But I do not think that there is any doubt but what the question is an appropriate one for examination, because we do have serious budgetary constraints in this country.

We do have a major leadership role in the world, both defensively and economically, and we are finding it very difficult to fulfill all of our responsibilities due to budget constraints.

Senator **Lugar**. Let me just add that I appreciate your response. I have enormous admiration for what you are doing. I have a feeling you are skating out there almost by yourself frequently in debating such issues as the world debt situation, balance of trade, and the potentially disastrous consequences for the United States.

We have been very fortunate that interest rates have come down. As your own testimony points out, if $13 billion had not been saved in interest, heaven only knows how many cries for default or restructuring of debt would already have occurred, and we might not always be that lucky. We have a very narrow period to try to get the job done.

So I just take this forum to raise the question which is insoluble, but with congratulations to you for doing what you can.

Secretary BAKER. Thank you, sir.

The CHAIRMAN. Mr. Secretary, I apologize for being late. I want to join in welcoming you here. I would ask, without objection, that my statement be inserted in the record as if read and as if in the beginning of the hearing, and I would turn at this point—I will ask my questions later on—I would turn at this point to Senator Zorinsky.

Senator ZORINSKY. Thank you, Mr. Chairman.

Welcome, Mr. Secretary.

Secretary BAKER. Thank you, Senator.

Senator ZORINSKY. Mr. Secretary, you pointed out in response to some of Senator Helms' questions that your task as a Secretary of the Treasury is to make economic decisions. As a former businessman, I agree with you; and as a businessman, I always tried to make decisions based on the economic realities of the times.

In your estimation, is it prudent for a business or a government to go out and borrow money and pay interest on that money in order to set up an agency whose mission it is to loan that money, and then have trouble getting not only the principal but any of the interest paid back on that money?

Is that a good business decision?

Secretary BAKER. Well, the United States is not a business, of course, and we are not engaged in an operation for profit. I do not know what agency you are referring to. Are you referring to the MIGA?

Senator ZORINSKY. Well, let me go a step further. I have a saying that we make money the old-fashioned way. We print it back here. With all these acronyms——

Secretary BAKER. I have heard that joke before, but go ahead. [Laughter.]

Senator ZORINSKY. What did you say?

Secretary BAKER. Nothing. I just said I had heard that joke before somewhere else, but go ahead.

Senator ZORINSKY. I did not classify it as a joke. [Laughter.]

My people back home who cannot get a $5,000 loan to save a farm do not think it is a joke at all. We print money back here when they cannot get any money.

But regardless, when you see the multilateral development banks; the International Development Association, the African Development Bank, the Asian Development Fund, the Inter-American Development Bank, and the International Monetary Fund, you know that many of these institutions will never get the principal, let alone the interest, on some of the loans they provide. Yet we, who finance those loans, are talking about a $160 billion deficit.

In 1984 we initiated a new window of opportunity to be the "stuckees" for money that we loan out. It was called the Inter-American Investment Corp., which was duplicative in nature, another hole in the dike that we did not need. I voted against it, but unfortunately it passed.

That was in October 1984. We obligated ourselves to $50 million seed money to open it up. Now of the $50 million, we paid $24 million into it. That was in 1984. In the 1988 budget, the request is made for the balance of the $26 million due as part of the $50 million. Even though we have put $24 million in the IIC it has not even hired an executive director. It is still nonoperational. We went out and borrowed the money for this institution, inasmuch as we still have a deficit in this country. And if we borrowed it at say 6 percent, so far we have paid $1.3 million annually for money we put into an organization that still is not functional. For 2 years we have spent $2.6 million of our money for another loan window opportunity that we do not need, and that is nonfunctional today.

My question is: If we cannot collect what is due us, why do we continue to obligate ourselves to additional "windows of opportunity"?

For instance, the MIGA. We have a company like ENRON who had property, its energy pipelines, expropriated in Peru. Enron requested that it be allowed to deduct some of its loss—I think there is a $400 million loss. Peru took the property at gunpoint with tanks and jeeps, and our tax laws are such that Enron cannot recover any of its losses. And here we are talking about starting something out that we can pour more money into when American businesses cannot even take the loss due to our tax laws. I think it would be a lot easier to allow businesses to take it off their profits, rather than to go out and borrow money to create an additional agency for events of this nature and have to pay interest on it for events of that nature.

So, I would just like to get your views on that question and on why the Inter-American Investment Corporation is not functional after 2 years? Why do we have to pay the balance of $50 million when we never should have been involved to begin with?

I have talked to many of my colleagues on the other side of the aisle, and they said, "I do not know why I am voting for this except that the administration told me I should." I do not think that is a good enough reason.

Secretary **Baker**. Senator, let me try and answer. You have raised a number of questions there, not just the status of the IIC, and I will address myself to that.

Senator **Zorinsky**. Incidentally, we lost by one vote in the U.S. Senate of stopping the IIC, which meant there was not unanimity in going out and borrowing more money and paying interest to open up that window of opportunity.

Secretary **Baker**. First of all, let me say that I do not think that it is accurate to say that we have got money in these various institutions that we will never get back. We do have capital contributions. They are there. Those institutions are not making loans that have been defaulted on. Not one dime has ever been lost by any of those institutions.

They enjoy a preferred credit rating in financial markets. They can go out and sell securities and generate income, and that is where the vast leverage comes from our capital contributions. So it is really not right, I do not think, to say, Senator, that somehow in contributing to these institutions, the MDB's, we are throwing good money after bad—unless you want to say that we ought not to be a player with respect to the MDB's. You can make that argument. But we are not losing money.

I mean, we have our capital contributions there. Those institutions are not losing money.

ENRON itself, and I am familiar with the company because it is headquartered in my hometown. I know the management and they have been in to see us with respect to a special tax law change and so forth. They themselves are working with the World Bank to put together a package to finance the purchase in Peru by locals of that pipeline.

So they are turning in fact to the MDB's to solve their problem, or to help solve their problem.

The IIC is not operative yet because it did not really come into existence until March 1986. It has been 11 months. They are about to get a general manager. When they get a general manager, it is my understanding they will be operative.

Why are we asking for this $50 million? So that we can live up to our international commitments made in good faith after consultation with the Congress, and after congressional action. The United States should keep its word.

One of the reasons our requests for the MDB's are so large this year, Senator, is because we have been reduced in prior years and we have a fiscal 1987 supplemental request that balloons it up some.

But the real issue is, as the world's largest economy do we believe we have a responsibility to provide leadership in international economic matters or not? Are we going to continue to be a world power, if you will, on the international economic scene? Or are we simply going to retreat back behind our boundaries and say, "huh-uh, we are no longer going to play out there anymore." We are going to leave that to somebody else.

We live in a very, very interdependent world today. What happens in South and Central America, for instance, I think has an impact—I know it has an impact in my home State in Texas, and the people that produce there. We lost some markets down there, and we need to find a way to recapture those markets.

The only way we are going to recapture them is if those countries get back on their feet.

Senator ZORINSKY. Well, Mr. Secretary, let me just point out that ENRON would not have to go to the MDB's for help if its own government would have given it some relief within our own tax law system. The only reason it is going to the MDB's for help is because it cannot get it from our end of the Government, so it must go ask somebody to start a whole new entity because we would not help to begin with.

Second, if you think leadership in the world economy is based on how we have been doing things, then I would say that is a sad commentary on our measurement of leadership. We have become a debtor nation under this philosophy, and a nation with a $200 billion deficit in our budget.

You say that these institutions are fiscally solvent. I am not a banker but let me tell you that if I, as a businessman, were in the kind of shape as this country is, my banker would think I was insolvent. My banker would believe that even though I could create another set of bookkeeping records saying, "Well, those who owe me have not gone 90 days without payment in paying me the interest." And my banker would know the reason they do not default on the interest is because we loan them more money so they can make the interest payments in order to keep banks from collapsing.

Secretary **Baker**. Senator, I hear what you are saying. I might say that when you say the reason this particular company is going to a Multilateral Development Bank for help is because its own government will not help it, the fact of the matter is it is not the government that is not providing financial relief, it is the taxpayer.

The question is, Are we going to set an example here, and impose on taxpayers the loss that took place there through expropriation totally uncalled for, unjustified, stealing if you want to put it that way, of property? Is the taxpayer, the American taxpayer willing to become an insurer of every American company that has an investment abroad?

Because that is the kind of precedent we would be setting in this case. You yourself say we have a $200 billion deficit.

Senator **Zorinsky**. It so happens that this particular company has paid high taxes every year. The American taxpayer took advantage when they made money off of these businesses, and certainly, I think, would assume the obligation if these businesses lose money. The American taxpayers, all of us, are in this together.

Secretary **Baker**. We sure are. And please understand me. I am very sympathetic to their claim, because they really in effect had their property stolen from them. But I just wonder where we are if you do something here, where do you stop it? What happens the next time a company loses something abroad.

Senator **Zorinsky**. Thank you, Mr. Chairman.

The **Chairman**. Thank you, very much.

Senator Kassebaum.

Senator **Kassebaum**. Thank you, Mr. Chairman.

Mr. Secretary, while I doubt if Africa is a 10 on your list of priorities, I do appreciate that you and Treasury recognize some of the real debt problems that Africa faces, and if I may visit with you for just a moment about that.

Let me just give some figures, first, which causes my quandry on exactly what to do. I think everybody ponders this issue. The World Bank has calculated that even with a replenishment, the structural adjustment facility, and all other programs, Africa will receive about $1.5 billion less per year over the next decade than it will be able to get back in import levels of 5 years ago.

Largely this is because of the big debt payments that Africa has which amount to about $6.8 billion a year. I personally have really wondered where this was leading, even with all of the requirements that we have made on growth-oriented economic reforms which are important, you have stressed that; you have stressed, as a matter of fact I believe, a large portion of the replenishment would go to Africa if these economic reforms are adopted.

But just how much growth is really going to be possible? I wonder if we can really say that if Africa adopts economic reform there is going to be enough money to even help them do the job. I think it is compounded by what kind of trade they can have that can really be substantial in imports, their own lack of institutional structure to build on, the political and economic instability that plays hand in hand?

I think that your mentioning of the reforms that are to be implemented is really very good, with the bank taking on country programming structures, but I am just in a quandry. Frankly, I think that we are going to have to look to more creative means of dealing with it, whether it is debt/equity swaps—this seems to be the new word—but I think that it is going to take something like this to get us off the dime; because otherwise, we are just recycling money.

It is a very unproductive use of capital.

Secretary **Baker**. You are talking now about Africa, Senator?

Senator **Kassebaum**. Yes.

Secretary **Baker**. But you are not talking about other——

Senator **Kassebaum**. Well, no, because I think Africa is different in a way than say Latin America. For one, you do not have the commercial banks involved.

Secretary **Baker**. I quite agree with that. You have a lot farther to go in terms of economic reform, for one thing.

Senator **Kassebaum**. That is why I say I do not think it is a 10 on your list, because it is not the enormous debt you are dealing with in Latin America, nor the same type. But politically for the United States I think it is important for us to focus on this at this particular time.

Secretary **Baker**. Senator, one of the points that we argue most vigorously in support of the full authorization for IDA VIII is that it was agreed during the negotiation that 45 to 50 percent of the replenishment would go to Africa, to sub-Saharan Africa, as you know.

I am not suggesting for 1 minute that we have enough by way of resources going to Africa to take care of the problems.

Senator **Kassebaum**. Well, my question really was not even the amount of resources going there to take care of it. But is it being used as productively as possible? Should we not think—and maybe the country-by-country programming structure and all of the other coordinated efforts that the bank is going to do might help—but just money going in that is cycled right back in paying off interest does not do much to lend to some, as I say, productiveness on the part of the capital.

Secretary **Baker**. The only other way to do it would be forgiveness of loans or some sort of a debt/equity swap. But the debt/equity swap market is not that far advanced, quite frankly, even in countries which are more advanced than the countries of sub-Saharan Africa. The investment regimes and investment laws in some of those countries are primitive, and it would be unrealistic, I think, to think that U.S. businesses or private-sector enterprises from other countries would want to go in there and take equity positions.

In addition to that, as you know the political situation in some of those countries is very, very insecure.

Senator **Kassebaum**. Well, that is true. But then how realistic is it of us to expect economic reforms on their part? If we are not sure we can encourage the business community to go in?

Secretary **Baker**. Well, there could be some business that could go in, but you have got to have the reforms first. What I am saying is, the situation today would not be conducive in my opinion to debt/equity swaps in Africa. So you are really down to some sort of a forgiveness situation.

Most of the debt in Africa is official debt, or it is debt that is owed to the multilateral institutions. I think it would be counterproductive really, Senator, to talk in terms of having the multilaterals forgive their debt.

Senator **Kassebaum**. Well, I am not talking about forgiveness. I mentioned more the debt/equity swap. For instance, Nigeria which does not even have—has no IMF loans is one of the African countries that has commercial banking.

Secretary **Baker**. Yes.

Senator **Kassebaum**. It has had some debt/equity swaps.

Secretary **Baker**. That is correct.

Senator **Kassebaum**. It has devalued part of their loan portfolio, and has begun to really come back in a way that I never would have believed 3 years ago.

Secretary **Baker**. That is right, and to the point even, Senator, that they have received some new lending. Now you are saying, "Should that not have come in in the form of equity?" Clearly it would have been better if it could have been generated as equity.

Senator **Kassebaum**. Well, but some of it has, has it not?

Secretary **Baker**. Some has, but not a great amount. I think they have gotten some new lending in the hundreds of millions of dollars here recently.

Senator **Kassebaum**. Well, you know, I am no financier but I do see, as you look around Africa, Zambia which we have always held up as a model that is attempting to do economic reforms, is really not much further ahead than it was 6 years ago.

We are asking countries to end subsidies, change structures which we cannot end our own subsidies in this country, and while this is terribly important to do, I think we have to realize what a very fragile situation you are dealing with which could really lead and has led to an overthrow of governments there.

So of course, as you know, we walk a fine line. But I believe what I am asking is to take perhaps two or three countries that we could use as a model and some experimenting through some different financing structures that we can focus on for enough time to make a case of what economic reform can do. Because to do economic reform and then simply be rewarded by perhaps refinancing that has to go back to paying off their debts due in large part to days when money was there and went to perhaps cronyism or——

Secretary **Baker**. Bad policies; that is right.

Senator **Kassebaum** [continuing]. And bad policy, now hangs over them to such an extent they cannot move beyond that.

Secretary **Baker**. Well, Senator, there is no difference between us on that. There are some countries of course that are performing very well. The Ivory Coast is a good example. You mentioned Zambia. Zaire has problems. They have done——

Senator **Kassebaum**. Well, Zaire is a different case.

Secretary **Baker**. I understand, but they have done a lot of what the IMF asked them to do, and they are having difficulty. So it is a very, very difficult problem. But I would think that there would be some room to move in countries like Nigeria, the Ivory Coast, and perhaps others toward greater debt/equity swap potential.

Senator **Kassebaum**. You mentioned when you were listing the reforms a concentration of concessional resources from the fund for special operations on the poorest countries, and then you list some, none of which of course are African countries.

How is this funded? How will you determine which countries will be able to receive concessional resources?

Secretary **Baker**. Well, that is the soft-loan window of the Inter-American Development Bank.

Senator **Kassebaum**. So it would apply——

Secretary **Baker**. Only to Latin American countries.

Senator **Kassebaum**. Oh, only to the Latin American countries?

Secretary **Baker**. The African Development Fund is the soft-loan window of course for the African Development Bank, and it is the counterpart of the FSO.

Senator **Kassebaum**. I see. I just would like to, and this is jumping in with a big question at the last moment, but this regards Latin America and the Baker plan, to a certain extent, which of course we all thought was a wise idea but which in many ways depended on the cooperation of commercial banks.

With Brazil in the situation it is today, Argentina declaring a bank holiday, Mexico uncertain I believe still although different reports that I have read of whether their package is put together, do you see some problems with your initiative due to some uncertainty on the part of the cooperation of commercial banks?

Secretary **Baker**. Well, let me say this, Senator. I think the multilateral institutions have done what the initiative suggested. I think many, many countries, many, many debtor countries have adopted a move toward the types of economic reforms that the initiative called for.

Commercial bank lending as we have said for some time was slow to materialize. I think it is beginning to materialize, as my statement indicated. We have seen $8.3 billion in new loans since we advanced the initiative in October 1985. We have recently seen, as you know, new loans to Mexico and Nigeria, and that Mexican loan in my opinion is now 97 percent subscribed, and I think it will close in my view within a month.

And what people lose sight of is we have also seen some $70 billion in reschedulings of bank debt. So while it was slow to materialize, and we would have preferred to see it come on stream faster, we have not given up on it. And we think it will ultimately materialize.

Senator **Kassebaum**. And you do not feel that it has been thwarted a bit perhaps by Brazil's action and potentially Argentina's?

Secretary **Baker**. No. As I indicated in testimony yesterday, while we regret the action Brazil had to take, we understand the reason for it. Their reserves are getting lower. They did it in a nonconfrontational way. They said they wanted to sit down with their banks and negotiate new arrangements, and we are quite confident that they will work this out in the context of negotiations with their private creditors. That remains to be seen. That happens to be our opinion.

This is not the first time that this has happened.

Senator KASSEBAUM. Thank you.

The CHAIRMAN. Thank you very much.

Senator Dodd.

Senator DODD. Thank you, Mr. Chairman.

Let me continue along that same line, if I can. It is not easy with each one of us up here picking out a part of the world, I suppose, and asking you to respond in great detail, and I realize this is not the first time this has happened with Brazil, Argentina, and Ecuador, which did not get quite as much attention in the media, but also announced its decision not to pay interest payments for the present.

There are others that I know you are as aware of as I that are privately telling us that they are going to have problems. Some of them are some of the smaller countries, Brazil being the Goliath. I do not know whether Ecuador would fall into the Lilliputian category, but they run the gamut of the Baker's dozen plus two, I guess, or three, as the number of countries you identified in 1985. Ten of them come from Latin America, of course as you know.

I for one have felt as though the Bradley plan was not a very good idea because of the fact that it was virtually calling for what we are seeing in some cases here; that is, to write all these loans off. Obviously you have got to keep the commercial banks involved. That is crucial.

But I am wondering, Mr. Secretary, despite the fact that I think your proposal is one that I am more supportive of than the alternative, is there something else between these two that we ought to be doing, some modifications of this? I hope you are right that this is not necessarily anything to become too concerned about, but when I see a Brazil, and when I see an Argentina, I see an Ecuador, and I know about some of these other ones that are not on the list even, announcing or saying they are going to do these things, I am wondering if maybe we ought not to be reconsidering some other steps or moves we might make. I wonder if you have given that any thought at all, in addition to your original concept and plan?

Secretary BAKER. Well, we have, Senator. In my summary statement I indicated the view that we think there are a couple of things we have got to keep in mind. One, the debt problem is a very difficult and complex problem. We all know that.

We also know that it did not happen overnight. It was created over an extended period of time, and it is not going to be solved overnight. But there has nevertheless been progress made.

Now there is no difference of opinion between Bill and myself with respect to how you have got to solve this problem. You have got to solve it through growth. Our proposal is based on generating growth in these countries. I maintain, and nobody has really argued—I have never heard anybody argue against this—that you cannot have growth if you do not have capital flows to sustain it.

There are only two ways to get capital flows. One is through equity, and that is preferred because you do not have to pay it back, and you do not have to pay interest on it; and the other is debt. The overwhelming amount of capital flows that are going to be available to these debtor countries is of necessity I think going to be in the form of debt.

We want to encourage as much equity as we can, and we try and do that, and that is why we push them to change their investment regimes and to create a climate that is favorable to attract capital flight back, and to invite investment. But I do not think that there is any reason to believe that we should have a fundamental alteration or change in the——

Senator **Dodd**. I did not mean "fundamental." I was not suggesting fundamental.

Secretary **Baker**. And in terms of—well, if what you are talking about is procedural, we are flexible. Others are flexible. The Paris Club has just recently rescheduled Brazil's debt, notwithstanding the fact that Brazil did not have a formal program with the International Monetary Fund. This has not been done before.

They do have some informal type of arrangement, article IV consultations and that sort of thing. So we are demonstrating flexibility in dealing with this problem. There have been discussions with the banks. Those are better done privately than they are publicly, not in an attempt to twist arms or anything else, but in an attempt to convince the banks that they too are a part of this, as you say, and they have got to sit down and negotiate in good faith with these countries.

Our job is to bring the two together and let them cut a deal, and not to mandate it. This is where I differ with Senator Bradley. With the concept in this country of private sector activity and behavior, it is foreign to suggest that we should somehow mandate that private commercial entities take a loss on loans, write down interest, or write down principal. We ought not to get into that. And if we do get into it, we are going to drive those banks away from those credits and they will not make any more loans to those countries, and the countries will not have the capital flows that are needed to support growth.

Senator **Dodd**. I just could not agree with you more on that point. I hope that message is heard. I would also say, and I would suspect you would agree, as well, as covered in the editorial in the Post on Brazil this morning—that the banks must also appreciate that there is a tolerance level politically.

And if they are not, as well, moderate in their demands, there is also the potential for reaction. As you know, and you and I have talked about this, they are very interested in expanded powers, and the editorial mentions that, and other things. It is not easy under any circumstances, but if they are perceived as engaging in some thievery in the process, no matter how much you and I agree that aspects of the Bradley plan are not wise steps at all, I suspect some of these Latin countries are beginning to sense that maybe that is the way to go, and I hope they are not because they will be sadly mistaken.

Let me, if I can, quickly jump to the IDB, the Inter-American Development Bank, because you have mentioned that. You are still in the process of negotiation, and you say on page 19 of your testimony progress in those discussions is not moving forward.

You have said here that there must be a number of fundamental reforms in the bank. I wonder if you might tell us, if you can, what specifically we are proposing as reforms? Obviously it is very important that the Inter-American Development Bank be a part of this effort, again agreeing that these countries, 10 of the Baker's dozen, are Latin American countries, that the Inter-American Development Bank is an important element in that equation.

I am curious as to why we have not been able to get an agreement. What is our negotiating position? Why is it being rejected? What are the alternatives, if you can tell us?

Secretary BAKER. Senator, you were not here when I answered that question for Senator Kerry, and I will try and summarize it very briefly.

We are asking that there be some substantial policy reforms in the bank. The biggest one concerns the voting power of the donor countries to the bank that give 95 percent of the resources—the United States and the donor countries as a whole. It is our view that we ought to have a more substantial say in what the loan policies are, and what the operational policies are of that bank. We just do not think that under the budget constraints we are seeing today in the United States, that it would be appropriate for us to come up here and ask you for money for that institution unless it is willing to reform in the manner that we have suggested.

One thing we want is to require a 65-percent majority to approve a loan. Otherwise, we will never get the proper kind of policy reforms. The lending will not be conditional enough. It will be too easy, too soft. It will go out to projects that may or may not be worthwhile. We do not think it would be right to come up here and ask you for money until we have negotiated changes in that bank.

Senator DODD. I do not disagree with you on that.

Just tell me if this is wrong. I have been told that there is a disagreement between a European proposal and an American proposal, in that we would like to have the directors, the United States plus one, have veto power, whereas the European proposal has three directors with the power to veto in that bank.

Is that a proposal? Is that the difference?

Secretary BAKER. That is basically right, Senator. We are saying that we want the United States plus one——

Senator DODD. The veto.

Secretary BAKER [continuing]. To have a veto right; and the Latin countries have suggested the United States plus two. We have said we are not ready to come to the Congress for more money for that institution on that basis.

Senator DODD. Is there any specific reason, aside from the ones you have identified, that would draw us to that? I understand the answer you gave me a moment ago, and clearly you are right that we always have a difficult time getting the approval up here for the funds on these. But is there some other underlying reason on this besides the political reason?

Secretary BAKER. Well, the underlying reason is we really do not think we will get the reforms unless we have the ability to force them through. And we would not have that if we did not have that United States plus one.

Senator DODD. Well, I do not want to belabor the point, I guess. Are the commercial banks pushing this at all?

Secretary BAKER. Let me add to what I just said, that the Europeans in the IDB do not have a record of opposing loans on policy grounds to the same extent that we do. They do not have as large an interest in seeing that institution reformed as we do, and that is frankly where the hangup is right now.

Now you asked me another question, and I am sorry I do not remember it.

Senator DODD. Well, I just wondered. I was curious whether the commercial banks would like this, as well? Are they pushing this as a price for their involvement at all?

Secretary BAKER. In summary, Senator, the banks are with us in the need to reform this institution.

Senator DODD. OK.

Secretary BAKER. So they support us.

Senator DODD. Would it be appropriate if we could ask, maybe in a written response because my time is up and I do not want to take your time, but to detail for us what reforms you are seeking? I understand the answer you have given me regards the holdup on the veto issue, but I would be curious to see what reforms we are asking for.

Secretary BAKER. I will be glad to do that.

[The information referred to appears in the appendix.]

Secretary BAKER. Let me just say that we have agreed to a substantial number of reforms. We have reached agreement. We are continuing to negotiate this reform package, but we have agreed to a lending program in the $20 to $25 billion range, paid-in capital at 2.5 percent, strengthened country programming, and concessional resources concentrated on the poorest countries— Bolivia, El Salvador, Guyana, Haiti, and Honduras. So we are making some progress, but we have a ways to go, particularly on the question of what percentage would be required for a veto of a loan.

Senator DODD. And that is the fundamental hangup?

Secretary BAKER. That is the main hangup at the present time.

Senator DODD. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, indeed.

Senator Adams.

Senator ADAMS. Thank you, Mr. Chairman.

Mr. Secretary, I am very pleased with the position that the administration has taken on this. Are we in fundamental agreement that these systems which were created at Bretton Woods were part of an effort to maintain a trading system for the benefit of the United States and Europe?

Secretary BAKER. Yes, sir.

Senator ADAMS. Wasn't one of the reasons for the massive increases in debt during the time of oil shortages was that we used our private banking system to recycle petro dollars through to developing countries in order that they would be able to pay their escalating oil bills? Wasn't a great deal of debt added during that period of time?

Secretary BAKER. Well, it is true that a great deal of debt was added. I do not know whether you can say we used our private banking system.

Senator ADAMS. Well, the decision was made in the United States and elsewhere, not to pump petro dollars through public institutions, but rather to have private banks throughout the world, including in the United States, recycling the dollars that we obtained from investment by the Arab countries. We would then loan money to developing countries, and they would in turn pay their oil bill? Is that not what you mean by a cycle?

Secretary BAKER. Well, I think that is what happened, Senator. What I am saying is I do not think that it happened as a consequence of specific Government policy or Government intention. I think it just happened. I think it is what happened out there in the market.

Senator ADAMS. Well, we may disagree, because I believe there was a bonecrushing decision made as to whether or not you could get appropriated money into these institutions in order to have the lending capacity, or try to use the private system.

Here is what I am concerned about. I think we both agree that commercial banks make their money on the difference between what they have to pay for their money and what they are able to charge for it. Correct?

Secretary BAKER. Correct.

Senator ADAMS. And that we have had in the past very high interest rates, and that many of the loans to these developing countries are still at relatively high interest rates compared to the interest rates in the United States that are paid to depositors and others. So you have a margin that is substantial at this point.

Secretary BAKER. Well, they have been rescheduled, Senator, and each rescheduling brings those rates down to the point that——

Senator ADAMS. But they are above 200 basis points, are they not, of margin?

Secretary BAKER. No. For the most part, the major debtors rates are well under 200 basis points over IBOR.

Senator ADAMS. On the commercial side?

Secretary BAKER. Yes, sir.

Senator ADAMS. Because the thing about that I am concerned about is that under your initiative, we are piling debt upon debt in these countries beyond the capacity of their economies to deal with it. I think you were quite accurate in your description of Brazil.

As interest rates have declined, have you made an effort with our commercial banks to require that there be a set-aside of a percentage of the amounts being paid on interest for a bad-debt reserve, so that these debts can be, if necessary, written down or at least stabilized so that the principal does not just continue to skyrocket to a point where the whole system collapses of its own weight?

Secretary BAKER. Banks have a capital and surplus position that is far better, Senator, than it was in 1982 when the debt problem first really appeared on the scene, and their position today is considerably better from that standpoint.

Furthermore, they have been to varying degrees—depending on what country you are talking about and depending on what bank you are talking about—establishing reserves. It is not something, though, that we have been mandating with respect to each bank.

Senator **Adams**. Isn't it part of your package, to require that in order to reschedule these debts in the developing countries, whether it be Mexico or Brazil, that the private banks, the multilateral banks, and the other Bretton Woods institutions, are required to face the possibility that at X point there has to be a writeoff?

I am concerned about whether or not our commercial banking system is being braced to do this. It seems to me it is part of a policy decision that the Secretary of the Treasury has to consider when moving forward with rescheduling or reform efforts in the international multilateral banking system.

Secretary **Baker**. I really am not sure I understand.

Senator **Adams**. My problem is that you are requesting the commercial banks to lend a substantial amount to the developing countries, and I think rightly so. The Government must use its multilateral institutions to also help. But if one part of this three-legged stool collapses, it does not matter how strong we make the remaining leg. I just want to know that there is a policy, in effect toward the banks at the same time or we have got an enormous problem in that the banks may not be able to carry their portion of this load.

Secretary **Baker**. But I am still unsure, Senator, what you are asking me specifically.

Senator **Adams**. I am asking you specifically whether or not as part of your policy you are trying to be in a position of persuasion that there be significant banking reserves set up to prepare them for a reduction in total amount of debt through writeoffs which may be necessary, because it seems to me we cannot keep piling debt on debt. These economies will not carry it, and they certainly cannot buy from us if they have no money.

Secretary **Baker**. Well, Senator, that is true if you assume that they are not in fact going to increase their growth. That is why our position has been the only way out is for these countries to increase growth.

Senator **Adams**. There is no question they have to increase growth. But are you not concerned that countries such as Mexico and Brazil—I mention those because you have discussed them this morning—have an escalating amount of debt, and that we are in a position, getting close to the position if not in it, of where they are borrowing and increasing their debt in order to make their interest payments, and at some point this has to stop?

Secretary **Baker**. No, sir. They are not borrowing to make their interest payments. They are borrowing to support the economic reforms that we think they have got to make if they ever are going to earn their way back. I mean, that is our position.

Senator **Adams**. Agreed. But debt is debt, is it not?

Secretary **Baker**. Debt is debt.

Senator **Adams**. And the burden on the economy is you earn so much, you have so much hard currency, and you have to pay. I am concerned that we are not bracing ourselves in the governmental sector and the others that are involved. That is all I am asking.

Secretary **Baker**. It is a question, Senator, of debt service capacity.

Senator **Adams**. Absolutely.

Secretary **Baker**. And if you are asking me, do I think they have the capacity to service this debt, including the additional debt, the answer is "Yes"—provided, they continue to make the economic reforms that are required.

Senator **Adams**. It is the "provided" that bothers me. Because if "provided" does not work, I want to know what our cushion is alternatively here, and the impact on our banking system. That is all I am trying to find. I am not trying to do anything fancy.

Secretary **Baker**. I understand. The impact on our banking system I would have to say would be far less adverse than it would have been if the lending had stopped and a default had taken place in 1982, or immediately thereafter. We are in better shape.

Senator **Adams**. And you are continuing to maintain a movement in that direction as part of the overall policy?

Secretary **Baker**. Well, I would prefer to say that the banks themselves are continuing to move in that direction.

Senator **Adams**. I do not care how it happens, Mr. Secretary, but that it is influential.

Secretary **Baker**. Through the buildup of capital and surplus.

Senator **Adams**. Thank you.

Thank you, Mr. Chairman.

The **Chairman**. Thank you very much indeed, Senator Adams.

I have a couple of questions here that I would like to direct.

First, in connection with the environment, the Sierra Club and various environmental groups are concerned about the loan practices and their impact on environments in the developing countries. They provide convincing arguments as to why sound economic principles dictate that the long-term environments of the developing countries be protected for the future.

In that regard, I would quote from the law, Public Law 99-190, "The Secretary of the Treasury shall instruct the United States Executive Directors of the Multilateral Development Banks to vigorously promote a commitment of these institutions to add or strengthen professionally trained staff to undertake environmental review of projects, or have development management plans to substantially increase the environmentally trained staff to engage in a review of the ecological impacts."

Then, moving on in that area under this public law, I would like it if you would to give us a report on how you have fulfilled the mandate of this law.

Secretary **Baker**. I will be glad to submit a detailed report to you for the record, Mr. Chairman, but let me simply say to you that I think we have demonstrated in every way possible our concern for the environment and the importance of environmental concerns in MDB lending.

In furtherance of that, I have personally discussed it with the president of the World Bank. I have personally discussed it here recently with the new chairman of the development committee in conjunction with the spring meeting of the development committee that is coming up, and we are going to have environmental issues and questions on the agenda for that development committee meeting.

We are involved in specific consideration and critique, if you will, of loans in Brazil, sub-Saharan Africa, and India and China with respect to environmental concerns. So I happen to believe strongly personally in protecting the environment, and I think you would find—and I will give you all of this detail for the record—that we are carrying that instruction forward vigorously.

The CHAIRMAN. I thank you very much. We would be interested in seeing the specifics of, for example, how many environmentally trained professionals have been taken on by the international institutions since the passage of this law presumably at the direction of our people.

So not only if you would give us a report of where we are, but what movement, or what the change has been since the passage of the law.

Secretary BAKER. Yes. The World Bank is going through a reorganization. The President has ordered a reorganization study for the bank as a whole, Mr. Chairman, and that has put on hold an environmental reorganization plan that had been progressing in the bank.

It was felt to be unwise to complete the environmental aspect of it in isolation; that it ought to be done as a part of the overall reorganization of the bank. Let me simply say that we have made the president of the bank well aware of our concerns in this area.

The CHAIRMAN. Right. That is not my question. My question is, What have they done? I realize you have made them aware of it, but what have they done?

Secretary BAKER. I will get all of that for you.

The CHAIRMAN. And if the IBRD has really done nothing because everything was on hold, the plan was on hold, that is no progress.

Secretary BAKER. No, no. That is just with respect to the operational reorganization within the bank. We have done a lot on specific loans, and I will get all of that for you and submit it for the record.

The CHAIRMAN. I wish you would, and actually give the numbers of new professionals who have come on who are following this, and the actual specifics. If you could, go right down the different paragraphs of the law and fulfill it maybe in the next couple of weeks, could we get that?

Secretary BAKER. Yes.

The CHAIRMAN. Thank you very much indeed.

[The information referred to appears in the appendix.]

The CHAIRMAN. Now in addition to that, this is a question I do not believe has been asked; if it has, let me know and I will go back to the record.

But given the agreement reached in Paris over the weekend, can we expect a positive result of it being a turnaround in the U.S. trade deficit in the near future?

Secretary BAKER. Well, trade numbers do not turn around in the near-term, Mr. Chairman. That is not something that, either from the standpoint of changes in exchange rates or from the standpoint of the adoption of macroeconomic policy measures by the major trading nations of the world, happens overnight. What we can expect is a move in the right direction from the time of the Paris agreement, as far as our trade balance is concerned.

We see in that agreement the surplus countries, specifically Germany and Japan, agreeing to do some new macroeconomic policy measures designed to increase growth in those countries. That will, ultimately, help our trade imbalance.

That is not something that is going to happen overnight.

The CHAIRMAN. I appreciate that. Let me return for a moment to the environmental point, not talking only about the IBRD but the law applies to the executive directors of all multilateral banks.

Secretary BAKER. Yes, sir.

The CHAIRMAN. The final question: During the course of OPIC's existence, many people have charged that its programs have resulted in the loss of U.S. jobs. I believe that is probably correct, and that is why I voted against it in the past. To guard against this, Congress has placed a number of restrictions on OPIC's activities. Most recently, Congress attached prohibitions against OPIC operating in countries which exploit their workers.

What protections, if any, have been built into the machinery of the operating agreement to ensure that the same problems we have had with OPIC do not reoccur with MIGA's programs?

Secretary BAKER. Do not appear with MIGA's programs?

The CHAIRMAN. Yes.

Secretary BAKER. Just a moment. [Pause.]

As I understand your question, Mr. Chairman, you are asking whether or not there is anything in MIGA or in the arrangements for setting it up that addresses the issue of workers' rights? There is nothing, as far as we know. That is something that we would of course be willing and pleased to raise.

The CHAIRMAN. Right. It is something that I hope you would put on the front burner to raise when you have the opportunity to do so.

Secretary BAKER. Yes, sir.

The CHAIRMAN. Just a few more questions that I will submit for the record.

Mr. Secretary, nearly 16 months ago you unveiled a U.S. proposal designed to address the external debt crisis facing a number of developing countries. What is the current status of the so-called Baker plan? How do the MDB replenishment requests currently before us fit into your plan?

[The information referred to appears in the appendix.]

The CHAIRMAN. The administration is requesting authority to participate in a newly created World Bank facility—the Multilateral Investment Guarantee Agency—MIGA. As I understand it, MIGA will do, on a multilateral basis, essentially what the Overseas Private Investment Corporation, OPIC, is doing bilaterally; namely to provide political risk insurance to private investments in developing countries. Will U.S. participation in MIGA make OPIC redundant?

[The information referred to appears in the appendix.]

The CHAIRMAN. The administration has negotiated an IDA VIII replenishment far in excess of IDA VII—more than $600 million larger. Is it not true that in congressional consultations undertaken by your staff prior to concluding this negotiation, great skepticism was expressed as to the wisdom of agreeing to such a large increase in IDA in light of the budget situation? Why did Treasury go forward with this level of funding in light of congressional concern?

[The information referred to appears in the appendix.]

The CHAIRMAN. None of my colleagues being here, I will just say that the record will be left open until the end of the day for any further questions that may be submitted.

Oh, I am sorry.

Senator ADAMS. I have no further questions.

The CHAIRMAN. No further questions?

Senator ADAMS. Right.

The CHAIRMAN. The hearing is recessed.

[Whereupon, at 12:05 p.m., the hearing was adjourned to reconvene at 9:40 a.m., Thursday, February 26, 1987.]

FOREIGN ASSISTANCE LEGISLATION: FISCAL YEAR 1988 FOREIGN ASSISTANCE REQUEST

THURSDAY, FEBRUARY 26, 1987

U.S. SENATE,
COMMITTEE ON FOREIGN RELATIONS,
Washington, DC.

The committee met at 9:40 a.m., in room SD-419, Dirksen Senate Office Building, Hon. Brock Adams presiding.

Present: Senators Adams, Helms, Simon, and Sarbanes.

Senator ADAMS [presiding]. The committee will come to order. This morning the Committee on Foreign Relations will hear testimony from various members of the public on the administration's fiscal 1988 foreign assistance request.

This year's overall request represents a 13.5-percent increase above current levels of funding, a significant increase when one contemplates the significant reductions being proposed in other areas of the Federal budget. Foreign aid has grown significantly in the last 6 years, and most of that growth has been in security assistance programs. Military assistance grants, for example, which do not include funds for Israel or Egypt are up more than 700 percent. Economic support funds are up approximately 70 percent. Although development assistance has also grown by a modest 18 percent, food aid and U.S. contributions to the multilateral development banks have both actually declined in this period.

The question I would pose to each of our panelists is, What is the proper balance between military and economic aid? Should we be providing less long-term development aid and more cash grant transfers through an expanded ESF? And finally, What, if any, changes ought we be considering to make the delivery of the aid we provide more efficient and more effective?

In this area of budget stringency and retrenchment, foreign aid will no longer continue to automatically increase. That means we need new, innovative approaches to stretch every dollar we appropriate to its limits.

Our first panel will address development assistance. Each panelist is asked to summarize his or her testimony within 5 minutes, and we will have all of the witnesses testify and then proceed with questions. Because of the number of panelists we have this morning, and we will have another panel that will follow this one, I have requested that the witnesses limit their oral testimony, but without objection your entire statements will appear in the record.

I have also requested that Senators limit their questioning to 5 minutes at a time on each round so that if possible I can move through at least two rounds for each panel. If we are very fortunate this morning and things go more rapidly than I anticipate, we of course will make use of our time so that everyone has an opportunity to fully state their positions because we are grateful to all of you for taking your time and being here this morning.

So that you have some idea of what the Chair intends to do or the schedule that we hope to follow, we have a second panel which I would hope would have an opportunity to start testifying at approximately 11 o'clock, so if you could all keep that in mind, we will put your statements in the record and also without objection it will be ordered that the record will remain open until the close of business on tomorrow, Friday, so that if there is additional material you wish to submit because of the limits on our time in oral testimony this morning that will be done.

Now, without further objection or ceremony, we would like to start with panel No. 1, the development assistance, and Mr. Thomas Stoel, would you like to start, Mr. Stoel, this morning?

STATEMENT OF THOMAS E. STOEL, JR., VICE PRESIDENT, NATURAL RESOURCES DEFENSE COUNCIL

Mr. STOEL. Yes, sir. I appreciate very much the opportunity to testify this morning concerning the U.S. foreign assistance program. I am Thomas Stoel, the director of the international program at the Natural Resources Defense Council, and today I am testifying also on behalf of four other major environmental organizations, the National Wildlife Federation, National Audubon Society, Sierra Club, Environmental Policy Institute. Together these organizations have more than 5 million members and supporters.

Mr. Chairman, the world today faces a number of serious and unsolved environmental problems. The U.S. foreign assistance program has great potential for assisting in the solution to these problems, but this is only going to happen if the United States chooses its priorities carefully and provides needed leadership.

My statement discusses a number of these issues and the solutions we recommend. However, in my oral testimony, because of the limited time, I am going to focus on only three of these, the U.N. Environment Program, saving wildlife species, and assistance for Africa.

The U.N. Environment Program has done a good job since its founding in 1973. Without UNEP, the world's nations would not be negotiating to regulate chemicals which are depleting the ozone layer. Without UNEP we would not have a place to reach international agreement on the extent of the global warming phenomenon due to the so-called greenhouse effect, and no place to find solutions, and without UNEP nations would not have been able to agree on cleaning up nine regional seas, including the Caribbean.

Unfortunately, UNEP cannot even pursue these important initiatives, much less take up on the badly needed actions, because it is stripped for funds. The main reason for this is that the United States has cut its contributon to UNEP over the last 2 years by 32 percent, from $10 to $6.8 million. This simply can't be tolerated in light of extremely serious environmental problems the world faces and UNEP's crucial role in solving them.

Therefore, we urge this committee to authorize a U.S. contribution of at least $12 million to UNEP for fiscal 1988. This will enable UNEP to adopt a 2-year program commensurate with the challenges we face and would send a signal to other donors and the world community that the United States believes these problems are serious.

Turning to the second issue, wildlife extinction, scientists warn that we face the horrifying prospect of losing in just the next few decades up to 25 percent of all the Earth's plant and animal species. The U.S. Bilateral Foreign Assistance Program has great potential for helping countries save species and habitats.

The Congress directed AID to do this in 1983 by enacting section 119 of the Foreign Assistance Act, but AID failed to respond. This committee did respond last year by reporting out unanimously a bill requiring AID to expend at least $2.5 million in this fiscal year in this area, $5 million in fiscal 1988, and $10 million in fiscal 1989. In the 4 months since this amendment AID appears to have made remarkable progress and has found excellent projects already prepared by scientists and other experts which it has been able to support.

Therefore we urge this committee to move this year to earmark $20 million for this purpose during both fiscal 1988 and fiscal 1989. The reason why the committee only earmarked $5 million last fall was a fear that AID could not find good projects in this area to support, but AID's experience during the last 4 months has proved that this was a false apprehension.

The final subject which I would like to address in my oral testimony is the crucial question of assistance to Africa. Africa recently emerged from a famine which caused the deaths of many thousands of people and threatened the lives of millions more. If the African crisis is to be overcome we must recognize that major causes are environmental degradation and overly rapid population growth.

The U.S. bilateral assistance must be carefully targeted to solve these problems. Fortunately, there is legislation at hand to do this. A bill introduced earlier in the week by Representative Wolpe on the House side and supported here by Senator Simon would require AID to engage in a number of small village level environmental restoration projects which are the key to turning around the process of environmental degradation in Africa. It would also require AID to increase its population assistance, which is another crucial area.

We recommend that this committee report out that bill and that it retain the provisions in the bill requiring AID to spend at least 10 percent of bilateral funds in Africa on environmental restoration and another 10 percent on population assistance.

That concludes my oral testimony, Mr. Chairman. I thank you for the opportunity to testify. I am prepared to answer any questions.

[The prepared statement of Mr. Stoel may be found in the appendix.]

Senator ADAMS. Thank you, Mr. Stoel, and thank you particularly for staying within the limits so that everyone could have a chance.

Our next witness will be Mr. Lawrence Bruce.

STATEMENT OF LAWRENCE E. BRUCE, JR., PRESIDENT, U.S. COMMITTEE FOR UNICEF, ACCOMPANIED BY RITA DE MARTINO, U.S. REPRESENTATIVE TO UNICEF

Mr. Bruce. Thank you, Mr. Chairman.

I do thank you for the opportunity to submit testimony on the progress of UNICEF and the child survival and development revolution this past year. I am also pleased to be accompanied by Ms. Rita DeMartino, the U.S. Representative to UNICEF. I appreciate also the opportunity to comment on the valuable work of several other international organizations receiving voluntary contributions from the United States such as UNDEP, UNEP, IFAD, which work closely with UNICEF in the field.

Mr. Chairman, the United States Committee for UNICEF, chaired by Hugh Downs, is now celebrating its 40th anniversary. Having been established in 1947, the first of now 33 national citizen organizations in industrialized countries, the United States Committee's mission is to inform and educate the American people and our Government regarding the work of the Children's Fund and the special needs of the children worldwide as well as to raise funds to address those needs.

The United States Committee for UNICEF is supported by an extensive national volunteer network. They are representing a large part of the American constituents for UNICEF, and it is their message that I bring to you today. Mr. Chairman, approximately 4 years ago UNICEF launched the child survival and development revolution as an alternative low-cost effective means of preserving child health and promoting child development.

UNICEF announced that they could save millions of lives within 10 to 15 years, making major worldwide progress achievable by 1990. A statistic so staggering, 40,000 child deaths each day from preventable disease and dehydration; that is, one child every 2 seconds, demanded and still commands our attention. Over those 4 years we have learned that low-cost intervention can indeed cut these tragic deaths in half by 1990.

GOPI is the acronym of the lifesaving techniques of growth monitoring or rehydration therapy, breast feeding, and immunization. The two principal programs of this program, immunization and oral rehydration therapy—and by the way, dehdryation from diarrhea is the largest single killer of children in the world—have already saved over 4 million lives in these past 5 years, 1.5 million lives saved in 1986 alone.

Over 80 countries are now implementing expanded programs of immunization. However, the case of wartorn El Salvador continues to be special indeed. For 3 years now, cease-fires have been called and honored by all parties to enable the immunization of the country's children. By the end of the first year of inoculation, nearly 300,000 of El Salvador's 400,000 children had been vaccinated against deadly diseases.

Before the campaign, only 40 percent had been immunized. The beginning of this month the country began a third annual round of these days of tranquility. The goal is to increase immunization from the now 70 percent to 80 percent. Mr. Chairman, these impressive results would not be possible without the leadership of the Congress and the support of the American people. The volunteers across this country who support the work of UNICEF have expressed their thanks to many Members on both sides of the aisle for acting in the last days of the 99th Congress to increase the Child Survival Fund to $75 million, with $50 million earmarked for immunization and oral rehydration.

Congress also has taken courageous steps to maintain the level of UNICEF's funding despite enormous fiscal pressures. We express our thanks to the chairman of this committee, Senator Pell, and to other members for their personal efforts on behalf of the world's children. I believe that such proof of the success of this campaign has added a new moral and ethical dimension to the deliberations of all governments appropriately concerned with the bottom line. I hope and urge that as in past years Congress will include this moral variable in the political equation.

Mr. Chairman, if time permitted I would speak to you about safe water. I would speak to you about the role of women and children in especially difficult circumstances, but that is in my complete statement. I have devoted the lion's share of my comments on the activities of UNICEF. However, I would like to emphasize in closing that the accomplishments to which I refer are the result of extensive collaboration of many international governmental and nongovernmental organizations. UNICEF has worked closely with several agencies of the U.N. system, including WHO, UNEP, IFAD, UNDP, and the World Bank as well as with international NGO's.

As one who speaks on behalf of an American constituency, one of tens of thousands of volunteers, I hope I have communicated to you the gratitude of that constituency for the leadership of the Congress. In light of the accomplishments I have touched upon, I urge the committee to maintain the authorization for UNICEF at a level which will support at least a slight increase in its appropriation for fiscal year 1988, protect the authorization level of the international organizations and programs receiving voluntary contributions from the United States, particularly UNDP, UNEP, and IFAD, protect the authorization level of the Child Survival Fund currently at $75 million.

Thank you, Mr. Chairman.

Senator ADAMS. Thank you very much, Mr. Bruce, for your excellent testimony.

[The statement of Lawrence E. Bruce, Jr., may be found in the appendix.]

Our next witness will be Dr. Henry Mosley, chairman of the department of population dynamics and director of the Institute for International Programs at Johns Hopkins.

Dr. Mosley.

STATEMENT OF W. HENRY MOSLEY, CHAIRMAN, DEPARTMENT OF POPULATION DYNAMICS, AND DIRECTOR, INSTITUTE FOR INTERNATIONAL PROGRAMS, JOHNS HOPKINS UNIVERSITY

Dr. MOSLEY. Thank you, Mr. Chairman. I appreciate the opportunity of being able to address this committee.

I am a physician specializing in public health problems in the developing world and have worked for 25 years on these issues. I have lived for 14 years in Bangladesh, Kenya, and Indonesia, and so I hope I can bring some firsthand experience to the committee.

First, let me give you a perspective on world population growth. Throughout recorded history large families and rapid population growth were the hallmarks of personal prosperity and national development. I think our own European and American history can testify to that. The Europeans, however, literally burst out of their homelands and spread over the globe, rapidly populating the vast continents of North America, South America, Australia, and New Zealand in their process of development. Even this was not enough to fuel the engine of development, and our ancestors went on to colonize most of Africa and Asia.

Over this period of time, roughly 350 years, the population of the world increased five times to about one-half billion, from one-half billion to 2.5 billion persons. However, we have had approximately 100 years, the Western world, to complete our demographic transition and bring birth rates into balance with our death rates. In the developing countries the picture is totally different. These countries experienced a precipitous decline in mortality following World War II. This was coupled with relatively little change in birth rates because these countries really have not had the time to increase national productivity, raise the standards of living, and educate their entire populations.

Thus we have in a space of only 37 years another 2.5 billion persons added to the world's population so that now we have more than 5 billion persons in the world. Perhaps this population growth, this second stage would not be so consequential if the world had a few more empty continents to fill up, but this is no longer the case.

Now, it is not impossible for impoverished nations to rapidly make the demographic transition, and two of the most noteworthy examples following World War II are Japan and China. Japan passed the Eugenics Protection Act in 1950 which provided birth control for its population and China as we know has taken a stronger policy and programmatic action and accomplished the unprecedented halving of its fertility in a 15-year period.

However, along with a few countries such as Hong Kong, Singapore, and Cuba, these nations stand out as exceptional cases in the post-World War II period. The vast majority of the developing countries still have fertility levels that will lead to a doubling of their population in two or three decades. Thus we have a demographically divided world with roughly half the world's population or 2.5 billion living in countries that have completed or are rapidly completing their demographic transition. These, of course, are Europe, North America, Australia, New Zealand, and East Asia, China, and Japan.

The other half of the world's population, residing in south and Southeast Asia, the Middle East, Africa, and Latin America, have annual growth rates ranging from 2 to 4 percent and face a very different demographic future. If we just contrast these, the first group of countries will expect an increase in population size in the next several decades of only from 5 to 20 percent. Even China's population will probably only grow by 50 percent.

By contrast, if we look at the second group of nations, we can expect a 100-percent increase in the population for Indonesia, Brazil, and India. India, in fact, seems destined to become the largest country in the world within 60 years. Increases of 150 percent are projected for Mexico and Egypt, 200 percent increases in population are projected for Bangladesh and Pakistan, while incredible increases of 400 percent are projected for most African countries, including Nigeria, Kenya, and Ethiopia.

What we have is the potential for many developing countries being caught in a demographic trap that is an inability to make it past the stage of rapid population growth. Economists may call this a poverty trap. The point is that in order for these countries to successfully complete the demographic transition they must bring the birth rates into balance with the death rates, and this requires both vigorous economic development as well as support for family planning. This has certainly been recognized recently in several national conferences, international conferences in Africa where African leaders have indicated what the needs are for the future.

I will be going to Nigeria in just a few weeks on a consultation for AID. Nigeria is the largest nation in sub-Saharan Africa with 100 million people. Only this last year it had adopted a national population policy focusing on providing family planning services to all its citizens. They have requested major international technical assistance. Nigeria could be a model for all of Africa if sufficient support were available. However, if not it faces a prospect of a fourfold or greater increase in population in the next 50 years.

The Nigerian situation highlights the urgency of increasing support for family planning and population programs. The reason for action now is that population growth has a built-in momentum. The persons who are going to bear children in the next 15 years are already born. We can project that the number of mothers in that time period will be 50 to 70 percent greater than those presently in the childbearing years. There is an enormous demand for family planning already among women who are currently in the childbearing years.

There is a saying, a penny-wise, pound-foolish. This could not be more true than for international family planning programs. Any reduction in funding in this area does not simply slow down programmatic activities, but it affects all development sectors because each additional unwanted birth compounds the problem of national development in every sector for an entire generation as added children require food, clothing, housing, health care, education, jobs, and ultimately their own family planning services.

Therefore I am urging Congress to reverse the decline in the population assistance that has occurred over the last 3 years and increase the support at a time when the world has really the greatest demand, the greatest need, and the greatest receptivity for these services. Thank you, Mr. Chairman.

Senator ADAMS. Thank you very much, Dr. Mosley, for excellent testimony.

[The prepared statement of W. Henry Mosley may be found in the appendix.]

Our next witness is Dr. John Aird, Mr. John Aird, former senior research specialist on the population of China, Bureau of the Census. Mr. Aird, we welcome your testimony.

STATEMENT OF JOHN S. AIRD, FORMER SENIOR RESEARCH SPECIALIST ON THE POPULATION OF CHINA, BUREAU OF THE CENSUS

Mr. AIRD. Thank you, Mr. Chairman. I am pleased to have this opportunity to talk about my favorite topic, which is population policy in China. The concern with population policy at the present is due to the withholding of funds from the UNFPA, AID funds from UNFPA on the grounds that the UNFPA was supporting a coercive family planning program in China.

Since that action was taken, a number of apologists for the Chinese program have asserted that since the high point of coercion in China in 1983, the program has been in the process of becoming more moderate, the coercion, instances of coercion are declining, and that therefore the coercion issue is largely a matter of the past, and funding for the UNFPA should now be resumed.

The evidence from China does not support that conclusion. There was some moderation following the peak of coercion in 1983 in the policies. There was even more moderation in the way the policies were implemented because of confusion caused by the change in policy in China. However, since the spring of 1985, central demands for the restriction of unauthorized births, the termination of unauthorized pregnancies, and for the attainment of population targets have been escalating and it is central demands running against the values of the people that are the basic cause of coercion in the Chinese program.

There is therefore every reason to expect that coercion in the Chinese family planning program is now on the increase. In 1983, the peak year, the central policy that caused the greatest distress throughout the countryside was the absolute demand that all women with one child have an IUD inserted, all women with two or more children or their husbands be sterilized, and that all unauthorized pregnancies, pregnancies that were not allowed for in the state plan for the local area, be aborted.

The main emphasis was on sterilization. Sterilizations in that year jumped by three times over the previous peak year, which was 1979. The policy was vigorously implemented, as the national family planning statistics indicate, but there was a strong public reaction to this, and a great deal of what the authorities call alienation of the people from the party took place as a result of the strongarm methods used in 1983.

As it happened a number of times before in the history of China's family planning program. When the reaction became extremely negative, the party backed away from the policies and blamed them on the local cabinets. Party Central Committee Document No. 7, issued in April 1984, warned the cadres against coercion, urged them to be fair and reasonable, and to improve their work style, which is a code word for being less rough on the people.

They slightly increased—the document slightly increased the categories of persons eligible to have a second child. They raised the percentage from about 5 percent to around 10 percent, but they also insisted the work must not be relaxed and that targets must still be attained. These contradictory instructions confused the cadres, and feeling, as they had on previous occasions, betrayed by the withdrawal of support of the center, they stopped enforcing the policies, and as a result the numbers of sterilizations, abortions, and IUD insertions dropped sharply in 1984.

This was not what the central authorities intended. By the latter part of 1984 they had already returned to a firmer demand, pointing out that Party Document No. 7 says you should maintain your targets, you should meet your targets. So there was a hardening of the line until late December, when again there was a reemphasis on relaxing the—on avoiding coercive measures.

Things moved back and forth several times in the spring of 1985, but increasingly there was an emphasis on attaining targets. That emphasis has continued up to the present time. In September 1985, the new 5-year plan, seventh 5-year plan was adopted which established firm targets for all areas consistent with the target of keeping the population under 1.2 billion by the year 2000. The hardening of the line was contained in a new central committee document issued in May of 1986 which emphasized the strengthening of family planning organs and increasing emphasis on maintaining targets, going after backward units, and cracking down on rural areas.

Since then the 1983 rules about IUD sterilization and abortion had been reinstated and an attempt to link the crackdown in family planning with the crackdown on bourgeois liberalism which is the current term used for preventing Western democratic ideas from spreading amongst the Chinese people. There is an attempt to link these two crackdowns because both imply a narrowing of individual freedoms in China. There is a logical connection.

If we still believe that coercion in family planning is inconsistent with prevailing United States values, and that therefore United States funds should not be used to support organizations which support a coercive family planning program in China, this is not the time for the Congress to change its position or AID to change its position on funds for UNFPA. This would signify to the world that we are not really serious about our protests that we respect human rights in the matter of the spacing and numbers of children that people can have.

We certainly don't need another example of American policy at variance with American principles. This is—the present time is not the opportune time for a reexamination of our attitude toward support for funding for the UNFPA.

[The prepared statement of John S. Aird may be found in the appendix.]

Senator ADAMS. Thank you. Our next witness is Kenneth Philips, and Chairman Pell wanted me to state to you his apology that he could not be here this morning to see a fellow Rhode Islander, and I convey that to you, Mr. Philips.

We would be pleased to hear your testimony now.

STATEMENT OF MR. KENNETH PHILIPS, EXECUTIVE DIRECTOR, FOSTER PARENTS PLAN INTERNATIONAL AND MEMBER, INTERACTION, WARWICK, RI

Mr. PHILIPS. Thank you very much, Mr. Chairman.

I am pleased to have the opportunity to testify today before the committee. With me is Mr. Ted Weihe, who is executive director of the U.S. Overseas Cooperative Development Council.

Foster Parents Plan is a private voluntary organization, and this year, in fact, we are celebrating our 50th anniversary. Our programs of self-help, grassroots development, and communications between foster parents in this country and their foster children and families in the Third World help improve the quality of lives of those people and help promote improved international understanding.

Although Foster Parents Plan is predominantly funded by private resources throughout the United States, we value the support we do get from the Agency for International Development as an important dimension to our programs.

Our testimony focuses on section 123 of the Foreign Assistance Act, and this testimony is not for Foster Parents Plan alone. Endorsing this testimony are 63 private voluntary organizations and cooperatives throughout the country.

They range from the Washington State Council of Farmer Cooperatives headquartered in the State of Washington, to other organizations such as Africare, CARE, the YMCA, the YWCA, World Relief, Sister Cities, and Foster Parents Plan, all of whom have chapters or offices in your home State.

These private voluntary organizations and cooperatives are very special for a number of important reasons. First, the financial support they receive is matched substantially by private resources. Together they raise more money than in the total official U.S. Government development accounts.

Second, they have a constituency of American citizens throughout the country, millions upon millions of donors and members support the activities of these organizations.

Third, as charitable, nonprofit organizations, they are able to draw on the resources and expertise of volunteers who make their services available. They can get the job done for less and they are highly motivated with their staff who work long hours and at low salaries in many cases.

Fourth, they do represent the best of the American spirit and ingenuity. By being diverse, they have new ideas, much as in the marketplace in the private sector in this country.

They have a sense of private dedication, and there are very many. There are 189 PVO's and cooperatives registered with AID.

Fifth, they are in fact better at reaching the poor, which is what AID and foreign assistance are all about. And finally, they really do represent people-to-people services in terms of foreign assistance.

Let me illustrate with just a few highlights from Foster Parents Plan about some of these benefits. As a person-to-person organization, not only do we provide the help overseas but we involve Americans in the work that we are doing. They feel a part of the foreign assistance program carried out by private organizations, and this is of real value to us and to the people in the Third World.

Again, even though much of our support comes from AID, the private nature of the organization is predominant, and we have focused on increasing that resource. Over the last 4 years, for example, Foster Parents Plan has increased the number of donors and the private resources available for these programs by double what it was 4 years ago.

And, just a brief story about a recent trip I had in El Salvador where the field director of our program called about 100 young boys and girls who were working in a gardening project over to meet with me, and many of them had foster parents in the United States. And the director said, who are you, which of you are sponsored by Americans, and they raised their hands and there was excitement and there was happiness and there was a real good sense of people-to-people connection.

With the dwindling available Government resources, PVO's can enhance Government funds and are an extremely effective form of providing this service. The partnership between PVO's, cooperatives, and AID is important to both partners.

This committee has worked hard over the years to increase the percentage of funding going to PVO's, and there is legislation that sets a 13.5-percent floor and a 16-percent target for aid to these people-to-people programs. Nevertheless, the amount has decreased and the percentage has decreased over the last 3 years.

The proposals endorsed by these 63 organizations, with an expected additional 40 organizations to endorse them next week, are summarized in the testimony. Briefly, we suggest that the committee direct AID to provide significantly increased resources to these private nonprofit channels.

Specifically, we strongly support an increase in the legislated minimum for development assistance funding dedicated to private nonprofits from 13.5 to 15 percent for 1988 and from 16 to 25 percent over the next 4 years. And these, in my opinion, are very modest proposals.

Mr. Chairman, I could go into the other proposals but these are covered in the written testimony. Thank you very much.

Senator Adams. Thank you, Mr. Philips. Your written testimony will be part of the record and will be included.

[The prepared statement of Kenneth Philips may be found in the appendix.]

Senator Adams. Our next witness is Ms. Nancy Alexander, chairperson of the Working Group on International Development Policy, the Interfaith Action, Washington, DC.

Ms. Alexander, it is a pleasure to have you before the committee this morning.

STATEMENT OF NANCY ALEXANDER, CHAIRPERSON, WORKING GROUP ON INTERNATIONAL DEVELOPMENT POLICY, INTERFAITH ACTION, WASHINGTON, DC

Ms. Alexander. Good morning, Mr. Chairman.

Interfaith Action for Economic Justice is an organization of approximately two dozen religious and ecumenical groups that are concerned with seeking justice for the poor and hungry in the Third World. As religious and prodevelopment organizations, we find the effect of military aid in the developing world problematic, but we have a long history of support for development assistance and believe that the U.S. record in development and humanitarian concerns demonstrates the constructive role that the United States can choose to play in world affairs.

In my remarks this morning I want to address myself to the three questions that you asked at the outset of the hearing. No. 1, What are our views relative to the balance between military and economic development aid.

We are concerned with the increasing size and direction of the security component of the foreign assistance program. We have firm congressional action which cut military aid by 16 percent in fiscal year 1987. We urge that the security component of bilateral assistance be sharply reduced again in fiscal year 1988.

We regret that the State Department has not seen its way to providing a fiscal year 1988 congressional presentation on military aid or ESF that handicaps our analysis. However, we note that the fiscal year 1988 request as the supplemental would increase security aid by about 8 percent over the enacted 1987 level.

This would accentuate a trend described by the fact that since 1981, security aid levels have grown four times faster than development aid levels. As you know, this aid is concentrated in a handful of countries. These countries are chosen for strategic rather than humanitarian motives.

Compared to 1981, 34 more countries would receive grant military aid under the fiscal year 1988 request, and 17 more countries would receive ESF. We feel that these trends show that while there is a crisis in foreign aid, the crisis stems primarily from misguided priorities rather than from budget constraints.

Your second question was whether we felt that the United States should move in the direction of more economic development aid or more cash transfers. In this regard, we would bring up the 1985 authorization. In this authorization the committee required detailed reports on the uses and purposes of ESF.

We urge that this directive be reinforced since a recent GAO report, "The Potential for Diversion of Economic Support Funds to Unauthorized Uses," points out the potential for abuse of this account. In these deficit-conscious times we urge that levels of ESF with its high spend-out rate be reduced. In addition, more of the remaining ESF could usefully be converted from cash transfers to development projects.

At this point, 25 percent of ESF is devoted to development, but a disproportionate share, 75 percent, goes to only two countries, Egypt and Pakistan, with very trivial amounts going to other countries.

With regard to your third question, how can we have a more efficient, effective development program, in our view U.S. participation in multilateral development efforts are the way to achieve a more effective program. U.S. multilateral efforts must be reinvigorated if this country wishes to participate in a prosperous global economy and see its trade deficit problem corrected or its foreign debts repaid.

In an era of diminishing foreign aid resources, cost-effectiveness must be the standard against which each program is judged. We hope that the Congress appreciates the multiplier effect of our dollars. For every $1 the United States contributes, other nations contribute $3 to development.

With regard to multilateral relations in development efforts, we wish to raise two concerns. One relates to the authorization for IDA-VIII, the IDA-VIII replenishment at the proposed administration level of $12.4 billion.

It is significant to us that IDA would spend nearly half its resources in Africa in an attempt to prevent future devastation. Ninety percent of IDA loan recipients currently receive some form of bilateral U.S. aid.

We think that multilateral aid can be more effective by ensuring that the poor in the Third World do not pay the bill for structural adjustment and urge that small farmers and women be involved in the development process. We would urge that your committee follow Barbara Carnable's poverty task force at the World Bank. They are attempting to correct the glaring discrepancy between rhetoric and reality in World Bank programs with regard to serving these constituencies.

If Congress and international development agencies had a fraction of the concern for women's productivity as they do for women's reproductivity, development aid would soar in effectiveness.

My last point regards the U.N. Just briefly, I would like to reinforce Mr. Stoel's points regarding the need to fully fund the IO&P account, and urge you and your committee to support legislation which the administration is sending to the Hill very shortly, which would restore those funds withheld from the United Nations and its specialized agencies, subject to Presidential certification that they are successfully implementing the reforms; in the case of the U.N., the reforms adopted in the General Assembly in December in the case of specialized agency reforms that are adopted as in the case of WHO are underway, as is the case with other specialized agencies.

Thank you very much.

[The prepared statement of Nancy Alexander may be found in the appendix.]

Senator **Adams**. Thank you very much, Ms. Alexander. I will limit my questioning to 5 minutes, as I announced earlier, and then we will go to the other members of the committee and then if we have the time we will go to a second round. Any member of the panel who wishes to comment on this question, please indicate so the Chair can recognize you.

In the general context that we are discussing—that is, development assistance, what are your views on the current balance between security and development, or economic and military aid levels?

Ms. Alexander.

Ms. **Alexander**. I choose to reinforce the remarks that I made earlier. We feel that the massive shift toward security aid has effected a transformation of the priorities and purposes of U.S. foreign aid. Have we really begun to understand the implications of this transformation?

It raises questions for us such as, Does runaway growth in security aid lead to waste or abuse of power and resources? Would U.S. allies cease to be allies if the United States paid less exorbitant prices for our relations with them?

Is there a danger of overstepping the sovereignty of other nations, is a question that we are looking hard at. For instance, my own organization, the Friends Committee on National Legislation, is particularly concerned with the administration's proposal to do away with restrictions in section 660 on U.S. provision of aid for training police forces and building prisons for other countries.

We urge you to consider the implications of this proposal for various areas, Central America and South Korea among them, and reject the proposal. In short, we feel that the program has already become so unbalanced and, as I said before, the crisis is really less in resources than in values and priorities, and urge that the shift be redirected in the area of development aid so the rest of the world can fully appreciate the humanitarian impulses that I am sure drive this country but have become more obscure in recent years.

Senator ADAMS. Thank you.

Mr. Stoel.

Mr. STOEL. Mr. Chairman, the groups which I represent have not reached a detailed consensus on this question, but I think we do agree on the necessity of reexamining what real security consists of.

In my written statement I point out, in Central America where we are pouring—or the administration proposes to pour $800 million a year into a very small region, the future of that region is being undermined by some of the things we have heard about, rapid population growth, environmental degradation that is reducing agricultural productivity on which the economies depend.

Unless U.S. assistance, whether we label it security or development, addresses these problems we are simply not going to achieve our overall objectives of economic progress and political stability. So, I do believe—I think our groups would agree that this whole question has to be reexamined, that these labels that are put on the types of assistance may be inappropriate when we look at the real interests of the United States.

Senator ADAMS. Thank you, Mr. Stoel.

Dr. Mosley, I have a particular question to you about China. I have been in China in the early 1980's and then I was there again last year for a sustained period of time.

Would you comment on the statements that were made, that China has enforced its one-child-per-couple policy through use, of course, of abortions, and how widespread you believe this practice is? And, do you think it has been sanctioned by the authorities and is it going to continue as a practice in China?

I mention my background in it only so that you will know that I am familiar with a number of the cities and the breakdown of policy in some areas and the variation between various regions.

Dr. Mosley.

Dr. **Mosley**. I have also been to China but have not really investigated the program in depth. I am familiar with the issues and concerns that Mr. Aird addresses, and I think they are some very serious problems.

I find it very, very difficult to comment on what the future of the China program is going to be because, as we have seen in the press, the whole national policy is in a state of flux with reference to a whole range of human rights and human freedoms.

So, I think I will defer any answer to your question, if you do not mind.

Senator **Adams**. Thank you, Dr. Mosley.

I am very pleased to welcome the Senator from North Carolina, Senator Helms. The panel has testified. They have been using the 5-minute rule. They have been very good about it.

So that, we have time available for two or three rounds, if you wish, so I recognize the Senator from North Carolina, Mr. Helms.

Senator **Helms**. Mr. Chairman, of course I am grateful to you not only for your courtesy in this connection, but for your understanding that we had an executive session of the committee over in the other hearing room in the Capitol, S-116. That is what delayed my being here, but I do thank you.

I have only two or three questions and I think I am going to direct them to Mr. Aird if I may. I may cover ground, perhaps, that you have already covered. If I have, then you can condense your responses or whatever you wish.

My purpose, Mr. Chairman, is to make as clear as I can what I believe to be the pending questions for President Reagan or any President, for that matter, and the AID Administrator who at this time is Peter McPherson. Now, as you know, current law, Public Law 99-591, provides that U.S. population control funds may not be made available to, and I quote, "any organization or program which, as determined by the President of the United States, supports or participates in the management of a program of coercive abortion or involuntary sterilization."

Now, I know what that means because I wrote it. I know what the intent was because I was the one who submitted it to the Senate. And that means that no U.S. population money can go to any organization involved in any way, in any way in programs of coercive abortion or involuntary sterilization.

Mr. Aird, I have a couple of questions and you may say,"Well, Senator, these are repetitive and repetitious." But the first one, What are the key facts about the current China population program which bear on the enforcement of this law as written, as intended? And second, what is your opinion as a long-time and respected expert on China as to whether United States population funds may lawfully go to organizations participating in the Chinese program, for example the United Nations Fund for Population Activities, which as in all bureaucracies is known by its initials, UNFPA?

Mr. **Aird**. Senator, the key facts that bear on this question of coercion in China are that the program was and still is essentially a coercive program. At times the Chinese authorities have denounced the more extreme forms of coercion, particularly when they had a negative reaction on the public and caused extreme antagonism of the people against the party.

When that happened, the more extreme forms would be renounced in the press and the cadres would be directed to stop using those forms until the furor died down and then the injunctions against coercion would cease. And in fact, some of the coercive methods that were prohibited at one time would be reinstated and the process would continue.

However, some basic forms of coercion used in family planning programs in China have never been renounced by the central authorities. These include the mass mobilizations for sterilization and abortion from which, according to Chinese descriptions, is quite obvious, people have no chance of escaping and when they are caught up in them they cannot refuse what is demanded of them.

They are clearly coercive measures, and in fact they have been rather explicitly defined as such. Mobilization is used when you fail to persuade the people.

Another method used is the so-called heart-to-heart talks between local cadres and activists and people who are carrying an unauthorized pregnancy or refusing sterilization when the policy says they should be sterilized. These continue with repeated visits by the activists or the cadre to the home of the individual until the individual cannot take the pressure any longer and caves in and agrees to have an abortion or sterilization. Those have never been renounced and are still being encouraged.

Finally, the use of study classes in which people are brought together, supposedly to be educated about family planning matters, but in some localities they are kept from family and friends and told they must remain in the study class until they agree to the abortion or the sterilization, whatever is being demanded of them.

Now, these tactics have never been renounced and are still in use. So, the problem remains. Now, the question about funding, if the intent of the Congress in passing that law is to see to it that United States funds are not provided to agencies which support the coercive program in China, there is no basis for changing the limitation that has been imposed.

The condition still exists. It is still illegal under terms of that definition of the law, for us to provide assistance to the UNFPA which is clearly still in China, is now in its second 5-year plan, $50 million plan of support for aspects of the Chinese program.

Now, it is true that the UNFPA has said that it does not directly involve itself in coercive measures, coercive abortion, or sterilization.

Senator HELMS. That's a copout.

Mr. AIRD. That is probably, literally true. But I think that anyone with any commonsense realizes there is no way you can support any aspect of the Chinese family planning program without seeming to support the whole of it. And in fact, public statements by Mr. Rayfield Salas, executive director of the UNFPA, have praised the program and openly expressed support for "China's population activities." He has been very explicit about that and has been quoted in our press and in the Chinese press.

So that, the UNFPA is distinctly in a position, an inescapable position of supporting the program in its totality in the eyes of the world and of the Chinese people.

Senator **Adams**. Senator Simon.

Senator **Simon**. I apologize to the witnesses for not having been here, but we had a markup in another committee hearing.

Dr. Mosley, if I may ask you, one of the questions as we approach the African aid, the increase in African aid, is whether we should in fact earmark, say 10 percent of that aid for population assistance measures. Any reaction on your part to such a proposal?

Dr. **Mosley**. I think population assistance should be an essential part of any aid program to Africa. I do not believe that in providing this, that we would be imposing any alien ideas on these people or these countries.

Rather, we are finding that more and more of these countries are recognizing that they have a serious problem with population growth that is really constraining their ability to carry out their economic development policies.

This is not something that is just recognized by national leaders, but as something that is also in the minds of the individual couples as well. So, I would certainly be supportive of providing this kind of assistance.

As I noted earlier in my comments, Nigeria has recently adopted a national population policy with an effort to develop a family planning program. This will require a lot of technical assistance, to provide them the skills, the knowledge they need to deliver the services, and to implement this program.

Senator **Simon**. If I may, and forgive me, Mr. Aird, because I just got in on the tail end of the exchange with Senator Helms, but Dr. Mosley, as I read your title, I assume you are familiar with the U.N. program.

Do you have any reaction to Senator Helms' question and the response by Mr. Aird?

Dr. **Mosley**. No, I do not really want to enter into this debate. I know that there are, and have been serious problems in China with family planning programs.

I think, however, what we should do is take the lesson from that, that Draconian measures may be taken by governments when they find themselves in desperate situations. This is all the more reason that I am so supportive of voluntary family planning programs, because I feel that if we let other governments move to the point that they feel like the population problem is out of control, they may also find themselves forced to take similar measures.

I would say that such drastic measures are not only taken by governments, but they are taken by individuals as well. I have worked in a number of countries. I was in Turkey. I was in Kenya.

When I did an evaluation of Turkey I found out that one of the major conditions that obstetricians were treating during the mid-1970's were complications of induced abortion because the women did not have family planning services.

In 1979 when I was in Kenya and evaluated the hospital admissions of Kenyatta National Hospital, the leading center in that country, the single most common cause of admission to that hospital was complications of illegally induced abortions. These women did not have the availability of family planning services.

So, I am totally promoting for voluntary family planning to avoid the various kinds of problems that we are seeing at the national level or at the individual level.

Senator SIMON. Thank you, Mr. Chairman.

Senator ADAMS. Thank you, Senator.

Senator Helms.

Senator HELMS. Again to Mr. Aird, Winston Lord was confirmed as U.S. Ambassador to Red China, I believe in November 1985. In your monitoring of the events in mainland China, have you seen any evidence whatsoever on the part of Ambassador Lord or any results achieved by him in persuading the Chinese to abandon what has been referred here today as the Draconian policy of permitting only one child per couple?

Mr. AIRD. I think the recent development in China's family planning policy, the distinct hardening of the line, that has come with the Chinese recognition that there is now a bulge in the population reaching the ages of marriage and childbearing, and the concern about the baby boom, and the recent report, that in 1986 there were 1 million more births than there were in 1985, have been such driving forces that nobody who has attempted to—and a number of people have attempted to exert a moderating influence on the program, nobody can claim any success at the present time.

Senator HELMS. Including Ambassador Lord?

Mr. AIRD. That would include anybody. I am not aware of any specific efforts by Ambassador Lord, but I think that is rather hopeless, under present circumstances, for anybody to suppose that he can really have a moderating effect which the Chinese leaders see of tremendous importance and to which they are therefore willing to apply the full force of the state.

Senator HELMS. Mr. Chairman, I have some problem with the means justifying the ends, in terms of the deliberate termination of innocent human life wherever it occurs. And I think if we start trying to cut the cloth to fit whatever pattern may be perceived from that, that we have gone down a rocky road.

But let me ask you this: Having read what the law is and heard the opinion of the Senator who wrote it, what do you think the U.S. Ambassador ought to be doing in representing the American people in Peking with regard to this one-child policy and the coercive abortion and that sort of thing?

Mr. AIRD. I do not think I am in a position to make representations to an American ambassador. He obviously has access to a lot of information about political currents in China that I do not follow.

I follow population matters but I do not follow political trends closely, and I would not attempt to offer any suggestions where they might be indiscrete for reasons that he might know about and I would not.

Senator HELMS. Now, the Administrator for AID, McPherson—whom I happen to like, he's a nice fellow—we have been around the track a number of times. He finally cut off United States funding of the Chinese population program through UNFPA for fiscal year 1986.

But before that, Pete McPherson authorized contribution to UNFPA in fiscal years 1981 through 1985 totaling about $177 million, as I recall, a good chunk of which went into this program. Now, given what was known about coercion in the Chinese program during the period from 1981 to 1985—and I recall that even Sixty Minutes spent some time on the subject, a CBS program—how do you rate the performance of Mr. McPherson and his staff at AID in providing millions of dollars year after year to that program?

Mr. AIRD. Well, Senator, I have a problem, not only with our policies in the earlier years, but with the UNFPA policies and the attitudes and positions of a number of the family planning advocacy groups in this country and internationally. In fact, a number of my fellow demographers, people who are population specialists and who attempt to keep on top of population developments across the world, in that all of them seem to have been very reluctant to interpret the early evidence of the coerciveness of the Chinese program that goes well back in the 1970's.

I do not really understand why organizations like the UNFPA, the Population Institute, Population Crisis Committee, the International Planned Parenthood Federation, all of whom affirm—and they have it in their constitutions and their basic documents that they support only voluntary family planning and that they are opposed to efforts that would deprive people of the right to determine the number and spacing of their children, why, if this is their value, they had such a hard time recognizing the first major example of a national family planning program that violates those principles.

It would seem very plausible to me that anyone who had any connection with, or was considering connection with the Chinese family planning program would have been warned off by the news coverage which, as you say, was very extensive, even going back to those early years, and would have said, "Wait a minute. It might be a violation of our principles if we put our organization in the position of supporting this program. Let's make sure what the evidence indicates and play a more cautionary role."

Now, that would have been very plausible. That would have put equal emphasis on the desire to encourage control of population growth on one hand and the desire to maintain the voluntary principle on the other hand.

If both values were of equal importance, I would think that is what these organizations and individuals would have done, but they did not. Instead, they seemed to be extremely ready to accept Chinese assurances, which were contradicted by domestic evidence from China, that the program was voluntary.

These are highly intelligent people. I do not think they can be deceived easily. If they had applied their critical knowledge--critical capacities to the knowledge that was then available.

I really have never understood this. My colleague, Judith Bannister of the Census Bureau, once said that amongst family planners and demographers there seemed to be sort of a conspiracy of silence about the true nature of the Chinese family planning program.

I have spent my life studying this program. I followed it for 30 years. I followed population policy in China for 30 years. And my main function has been to try to get at the realities which have changed many times over that period.

I have been quite distressed when colleagues of mine in fields which I have a great deal of professional identification and sympathy, such as the family planning movement and demography in general, when people in that field have been reluctant to accept evidence which to my eyes is very obvious.

I cannot explain the failure, except perhaps to say that when people are devoted to a cause or purpose that is essentially humanitarian, and which they have reason to believe is in the interests of the people of the world as well as of China, they are reluctant to accept evidence that there may be a serious problem that might curtail the scope of that activity.

I think that is understandable, but I do not think it is entirely excusable. I think we should be more responsible in holding to our principles as well as pursuing our causes on such matters as this.

Senator HELMS. Thank you, sir.

Thank you, Mr. Chairman.

Senator ADAMS. Thank you, Senator Helms.

Mr. Philips, the comment is often made that PVO's can do the foreign aid job at considerably less cost than AID because AID has a higher overhead and administrative cost built into its structure. Do you have any empirical evidence to support this contention?

Mr. PHILIPS. I do not have any evidence with me that does. I am convinced of it because I see it in the field and I think it comes really from the flow of the volunteer spirit, that people who work for private nonprofit organizations have a kind of dedication that really does surpass most people's understanding.

Senator ADAMS. Ms. Alexander, you commented on the balance in programs between economic assistance and military security assistance. Do you want to indicate to the committee which countries or programs that you would reduce to eliminate or reduce our security assistance program?

Ms. ALEXANDER. No, sir. Our organization has not taken a position on that point. However, as a starting point we would suggest that an overall cut be made and that allocations be made within a lower amount.

Senator ADAMS. Mr. Philips, would you describe how our indigenous PVO's relate to the U.S. PVO's and what can be done to strengthen that relationship?

Mr. PHILIPS. When you say our indigenous PVO's, do you mean the PVO's in the Third World?

Senator ADAMS. Around the world.

Mr. PHILIPS. Many of us have working partnerships with them, wherein we essentially fund programs that they are responsible for managing. I think one of the greatest needs for all organizations is to increase their capability and their professionalism in a number of areas as new science, new information becomes available.

I would say that technical training, management training in areas like this are of the highest need for indigenous PVO's to receive. Many of them are very small, very new. In my personal opinion, they represent the real future for development within the Third World.

So, I would recommend more technical training to be provided to them.

Senator Adams. Senator Helms.

Senator Helms. I have one final question for Mr. Philips.

In reviewing your testimony, page 10, I was pleased to see a reference to the section 108 Local Currency Program in Public Law 480. Inasmuch as I had a little something to do with that language, I especially appreciate your assessment of it.

My question, I guess, is, Don't we need to fine tune this thing and go further in terms of the implementation of it, and I wonder if you have any suggestions about what we could do that should be done in that direction?

Mr. Philips. I would prefer, if I may have my colleague, Mr. Wiehe, answer that. He is with me and he helped prepare the testimony.

Senator Helms. That will be fine.

Mr. Weihe. Let me say, Senator, that your——

Senator Adams. Would you give your name for the record.

Mr. Weihe. I am Ted Weihe, with the U.S. Overseas Cooperative Development Committee, including cooperatives in your State, like the Blue Ridge Electric Cooperative is one of my members.

We worked with you on that legislation. We think it is fine legislation. We think the problem has been its very slow implementation, very complicated regulations.

There are only three projects that have come on line. I think it is going to take time and a lot of education within the agency that is administering the program.

We think the thrust is right. What we are suggesting in this legislation is to gear and strengthen the aid role in complementing the legislation; in other words, using indigenous PVO's, U.S. cooperatives which have really been running the indigenous—the uses of food aid mostly have been through co-ops and PVO's in terms of these imaginative programs to get to the private sector that I think you are trying to promote and increase.

Senator Helms. Mr. Chairman, as they say down in North Carolina, much obliged. Really, this is not an idle comment. I hope that you gentlemen will give us the benefit of any suggestions you may have from time to time about specific details of making this thing work.

Mr. Weihe. We notice that your staff has come over on this committee, and we will be talking with them about how to improve the program.

Thank you, Senator.

Senator Helms. Thank you very much.

Mr. Chairman, I have no further questions.

Senator Adams. I want to express the appreciation of the committee to all of the members of the panel, and to repeat the statement that I made at the beginning of the hearing, that the record will remain open until the close of business on Friday for any additional materials that you wish to submit.

We appreciate very much your time and your attendance in being here with us this morning. Thank you.

The next panel will be a panel on security assistance. There will be Mr. Thomas Dine, Mr. Andrew Manatos, Dr. Lean Lomis, Mr. David Sadd, and Mr. Robert Basil. If they will come forward, please, as soon as they are seated, we will proceed with the second panel.

We will recess for about 5 minutes for the benefit of the Chair and the reporter.

[Whereupon, a brief recess was taken.]

Senator ADAMS. The committee will proceed now with the second panel. For the benefit of those who were not here at the time of the Chair's original announcement, we will place all of the statements in the record so that each witness is free to summarize them, and unless there is objection these statements will be contained in the hearing record of the committee.

Hearing no objection, it is so ordered.

We also have requested the witnesses to limit their oral presentations to 5 minutes apiece because of the number of people we have to wish to testify. I have requested that the Senators limit their questioning to 5 minutes apiece so that we may have as many rounds as possible for those who wish to question.

So please, gentlemen consider your statements as being in the record and summarize as you may see fit.

Our first witness from panel two is Mr. Thomas Dine, the executive director of the American Israel Public Affairs Committee stationed in Washington, DC.

Mr. Dine, it is a pleasure to welcome you to the committee.

STATEMENTS OF THOMAS A. DINE, EXECUTIVE DIRECTOR, AMERICAN ISRAEL PUBLIC AFFAIRS COMMITTEE, ACCOMPANIED BY DOUGLAS BLOOMFIELD, LEGISLATIVE DIRECTOR, AMERICAN ISRAEL PUBLIC AFFAIRS COMMITTEE; ANDREW E. MANATOS, UNITED HELLENIC AMERICAN CONGRESS, AMERICAN HELLENIC ALLIANCE, PAN CYPRIAN ASSOCIATION OF AMERICA; DR. DEAN C. LOMIS, AMERICAN HELLENIC INSTITUTE, PUBLIC AFFAIRS COMMITTEE; DAVID SADD, EXECUTIVE DIRECTOR, NATIONAL ASSOCIATION OF ARAB AMERICANS; AND ROBERT BASIL, PRESIDENT, AMERICAN LEBANESE LEAGUE

Mr. DINE. Thank you, Mr. Chairman, and thank you for this opportunity to testify. I would like to introduce on my left Mr. Douglas Bloomfield, who is AIPAC's legislative director.

We very much appreciate this committee's support of Israel historically and in particular aid to Israel on an annual regular basis. Supplemental aid, friendship and understanding of a strong democratic Israel is valuable to the United States. United States/Israel relations today, Mr. Chairman, continue to be close, warm and productive. Last week's meetings between Prime Minister Shamir and our top political and policy leadership, including members of this committee, showed the normality and steadiness of the relationship.

This committee, the Senate and the House, as well as the President, the Secretary of State and the whole executive branch are part and parcel of the broadened and deepened bilateral relationship that has emerged in the last couple of years. A full-fledged political and military alliance is on its way.

A commanding figure in much of this, and I would like to take the time to emphasize it before this committee, in building a base and giving direction to this policy toward Israel is Secretary of State Shultz. He has been instrumental in the economic recovery. He has been instrumental in the close dealings of strategic cooperation, and I also support Secretary Shultz in his energetic advocacy this year of foreign aid to many places in the world.

An area where both sides are on track is in the constant search for a process of reconciliation and peaceful coexistence between Israel and its Arab neighbors, but particularly Egypt and Jordan, as you all know. Foreign Minister Peres yesterday in Cairo pursued this further. In 1986 both countries worked together closely on a peace process. In 1987 both countries, the United States and Israel, agree that direct negotiations is the key to any kind of success.

This is the visible part of America's peace process. There is a less visible part which I want to highlight to members of this committee. The current peace seeking process includes helping institute an economic development program on the West Bank. AIPAC strongly supports increased United States funding for the West Bank development plan that the United States as well as Jordan has put forward.

Mr. Chairman, why aid to Israel? Why aid to Israel at a time of budget constraints that this country faces? I think the most important consideration is that Israel is important to the United States. Israel is an investment with positive tangible returns for the United States. It is a wise policy decision.

Israel, as we all know, is a functioning democracy. There are too few of us in this world. Aid strengthens a reliable ally who can thereby help the United States in promoting and defending our interests. For instance, military aid to Israel prevents any further erosion in Israel's narrowing margin of security, and we are all aware of arms sales by the United States, by the Europeans, by the Russians to those countries still at war with Israel in the Middle East.

Economic aid to Israel has helped Israel on its road to economic recovery. Aid to Israel works. Economic recovery is successful as a project and a program. Economic reform in Israel is the next step. Finally, I believe that aid makes peacemaking possible.

On the strategic cooperation front, this Congress has recognized Israel as one of our few major non-NATO allies in the world. The United States and Israel are involved now in a close cooperative scheme of joint planning, joint military exercises, readiness, and intelligence sharing.

AIPAC cares about the foreign aid program, Mr. Chairman. AIPAC obviously supports aid to the Camp David countries, particularly Israel. I would like to emphasize in this particular presentation the West Bank development program for Jordan. All of these are vital in furthering America's humanitarian geopolitical interests.

Thank you.

[The prepared statement of Mr. Dine may be found in the appendix.]

Senator ADAMS. Thank you very much, Mr. Dine.

The next witness will be Mr. Andrew Manatos.

Andy.

STATEMENT OF ANDREW E. MANATOS

Mr. MANATOS. Thank you, Mr. Chairman. My cold has gone to my voice, and I hope you can understand me.

I would like to summarize my testimony, if I might. It will cover three basic points.

One, that since this committee dealt with this issue, there have been some new developments. One is that parts of the administration have moved to thwart congressional intent.

Two, is that Turkey has has become considerably more aggressive on Cyprus and elsewhere.

Three, is that since this committee looked at this issue last, Greek public opinion has had a radical change.

If I might take up some of the points on the congressional intent. Last week Secretary Weinberger testified before the House Foreign Affairs Committee and said a very shocking thing that this committee really does need to focus on. He said, about our military going to Turkey, that if Turkey sends that aid to Cyprus that that is proper and appropriate according to American law.

He made an artificial distinction that that is simply the stationing of equipment on Cyprus, and that is legal, he says. The use of that equipment is illegal. There is no question in my mind that that is not what the Congress intended.

Another point that I think is important to look at is during last year's Appropriations Committee consideration of this issue, the State Department sent a letter to a Senator on that committee who had inquired about an increase in armaments and troops in Cyprus. That letter was very clear in suggesting that this information was inaccurate. Soon after that markup, an AP story ran which showed that the administration was very much aware of the increase in both troops and armaments.

Twice last year President Reagan utilized some language that the Congress gave him for purposes for which I do not believe it was intended. The President said, "vital to the national security interests of the United States" that he withhold $12 million that was specifically earmarked for Cyprus.

Since this committee has considered this issue, there have been a number of other developments on Cyprus you should focus on. One is that very recently two hotels in a sort of a no-man's land that have been left vacant, these two hotels were occupied by Turkish troops. The U.N. has moved in to ask them to withdraw. Troop estimates are at 25,000. The last time this committee looked at it, they were talking about 18,000 Turkish troops on Cyprus.

The increase in armaments we mentioned. Fifty-five settlers a day are going to Cyprus. Turkey has even been so bold as to print a map in an international publication listing Cyprus as part of its country.

It changed, as well, their explanation as to why they are on Cyprus. No longer do we hear that they are there temporarily and to withdraw their troops. Now we notice a completely different explanation which ignores the fact, and this is a very crucial fact, that prior to the invasion of Cyprus by Turkish troops not one Turkish-Cypriot was injured or killed prior to the invasion of those troops coming on.

If you ask people today what the factual situation is, many people will tell you, because they have not looked into it and they are judging from their impression that they get, the Turkish-Cypriot citizens were in great danger prior to the invasion and that explained the reason for the invasion.

The Turks have, as well, become more aggressive even against the Greek Islands. Let me review a quote that occurred last year from the former Turkish Prime Minister, Mr. Ulusu. He said, "Sooner or later, we should be obliged to break out of the noose formed by the Greek Islands which suffocatingly surrounds Turkey." The United States Prime Minister alluded to war with Greece.

Greek public opinion has improved radically. Fifty-five percent of the people in Greece in 1984 thought the United States policy was a threat to their country. Today it is less than 23 percent, a radical improvement that I might add this committee had a great deal to do with. Secretary Shultz and every other American official will verify that relations with that country have improved substantially.

There is a list of things this committee is going to consider this year that I would encourage your adoption of. One is an amendment that would prohibit American arms going to Turkey from being transferred to Cyprus.

Two would be withdrawing significant aid to Turkey until the withdrawal of troops were to occur. The 10-to-7 ratio is essential to the security balance of eastern Mediterranean security interests of the United States.

Third, if the Senate would do again as they did last year, that is adopting grant aid for Greece comparable to the money that Turkey gets. It adopted this in the continuing resolution, and it was knocked out in the conference.

Finally, the $15 million for Cyprus is the kind of signal that we need to send to the people whose island has been violated badly and to a large extent because of our armaments.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Manatos may be found in the appendix.]

Senator **Adams**. Thank you very much, Mr. Manatos.

Our next witness is Dr. Dean Lomis, American Hellenic Institute, Public Affairs Committee.

Senator Biden regrets that he cannot be here this morning, Dr. Lomis, and he wants to welcome you on behalf of the State of Delaware.

Dr. Lomis, we are very pleased to have your testimony.

STATEMENT OF DR. DEAN C. LOMIS

Dr. **Lomis**. Thank you, Mr. Chairman and members of the committee. I appreciate the opportunity to appear before you today on behalf of the American Hellenic Institute, Public Affairs Committee and summarize our views on the foreign aid authorization legislation proposed for year 1988 affecting Greece, Turkey, and Cyprus.

The administration proposes $913 million in military and economic aid for Turkey, $436.52 million for Greece, and $10 million in economic aid for Cyprus. We oppose this proposal as being contrary to the best interests of the United States.

In the interest of U.S. foreign policy, including national security interests and in support of the rule of law and human rights in international affairs, we recommend: One, that conditions be placed on all military and economic aid to Turkey; two, that the ratio of aid to Greece and Turkey be 1-to-1, including military as well as economic aid in the ratio; and three, the continuation of $15 million in humanitarian aid for Cyprus at least as long as the Turkish occupation presence remains.

Additionally, AHIPAC seeks a critical review and reassessment of the United States/Turkey bilateral relationship to determine the actual contribution by Turkey, if any, to the deterrent capabilities of the Western alliance and to determine the degree of damage that Turkey inflicts on the Western alliance by its continued aggression on Cyprus and the legal demands in the Aegean Sea.

The review should consider the value, if any, of United States installations in Turkey and the need, if any, of United States forces in Turkey.

Because of the continuing illegal occupation of nearly 40 percent of Cyprus by at least 35,000 Turkish troops equipped with American weaponry, the escalation of Turkish threats against Greece in the Aegean, the continued violations of international law, and Turkey's recent military modernization and buildup on Cyprus by illegally transferring upgraded American weapons to Cyprus, AHIPAC is calling for the imposition of the following, among others: Full and binding conditions on all military and economic aid to Turkey until, one, the withdrawal of all Turkish occupation forces and colonies from Cyprus;

Two, the immediate return of farmlands and more food to the Republic of Cyprus under even auspices for the immediate reception of the refugees—the area should be specifically delineated as that inhabited by Greek Cypriots prior to Turkey invasion of 1974;

Three, agreement by Turkey and the Turkey Cypriots to constitutional arrangements based on the universally accepted democratic principle of majority rule with full minority rights guaranteed as well as freedom of movement, settlement, and ownership anywhere in Cyprus;

Four, agreement by Turkey to full cooperation with the International Red Cross regarding investigation of the 5 missing Americans and the 1,614 missing Greek Cypriots from the time of the invasion;

Five, renunciation by Turkey of its illegal claims in the Aegean Sea and submission to the Court of International Justice at The Hague of any alleged claims; and

Six, agreement by Turkey to disband its army of the Aegean organized in 1975 and aimed at Greece's Aegean Islands.

As the President of the United States set forth in his January 23, 1983, State of the Union Address, and I quote, "Responsible members of the world community do not threaten or invade their neighbors, and they restrain their allies."

Turkey has not been responsible because of its continual to Greece sovereignty in the Aegean, its invasion of Cyprus in 1974, and continuing illegal occupation of nearly 40 percent of the Cypriot sovereign territory. In addition, please let me remind you again that there are 5 Americans and 1,614 Cypriots who are still missing after more than 12 years in captivity.

Furthermore, Turkey, to an administration estimate, has increased a number of occupation troops in Cyprus to a record 35,000 and has recently transferred modern United States tank equipment from Turkey to its occupation forces on Cyprus. Such action is contrary to the U.S. Foreign Assistance Act, the U.S. Foreign Military Sales Act, bilateral agreements under those acts, and in violation of Public Law 94-104, Section 2A, Subsection 1 of October 6, 1975.

Not only does the United States, as a respectable member of the world community, have every obligation to restrain its ally, Turkey, but "U.S. law stipulates that American military assistance to Turkey must be used only in conjunction with Turkey's responsibilities as a member of the NATO alliance," as stated by eight Members of Congress in their December 24, 1986, letter to Secretary of State George Shultz.

Thus far, the United States has not proven itself to be such a responsible member. The United States has made no major effort to restrain the actions of Turkey and Cyprus or in the Aegean Sea and has failed to take the initiative to achieve a just and lasting settlement on the Cyprus problem, something the United States is in a unique position to do.

Turkey is an unreliable ally. Turkey's well-documented track record of abominable practices and unfaithfullness is contrary to the credit given here. Turkey's unreliability to the United States and our allies, its inhumane practices against minorities, and its aggressive actions against its neighbors are indeed indisputable historical facts.

A detailed list of Turkey's violations of treaties, Mr. Chairman, and other actions demonstrating its unreliability as an ally and its cooperation with the Soviet Union will be forthcoming in a written statement that will be submitted to the committee for the record.

In closing, Mr. Chairman, Turkey's actions which have been harmful to the United States and to the Western alliance call for a critical review and reassessment of the United States/Turkey bilateral relationship and Turkey's role in NATO.

Thank you, Mr. Chairman and members of the committee.

[The prepared statement of Dr. Lomis may be found in the appendix.]

Senator **Adams**. Thank you, Dr. Lomis.

Our next witness will be Mr. David Sadd, executive director of the National Association of Arab Americans.

Welcome to the committee, Mr. Sadd.

STATEMENT OF DAVID SADD

Mr. **Sadd**. Thank you, Mr. Chairman.

The National Association of Arab Americans is pleased to present testimony as the principal lobbying organization representing 3 million Americans of Arab descent as well as a large and growing number of other Americans who share our viewpoint. NAAA wants not only to promote good relations between the United States and the Arab countries but also to see that United States tax dollars are spent in the most effective way for the protection and promotion of U.S. national interests.

In presenting this testimony, we are well aware that the foreign aid bill is subject to cuts under the requirements of the Gramm-Rudman-Hollings Deficit Reduction Act. We believe that all recipient countries should be expected to bear their fair share of the burdens associated with these reductions.

It is our intention in this testimony to offer our support in general for the President's fiscal year 1988 foreign aid request for the Arab countries and some cases such as Morocco and Tunisia and the occupied territories of the West Bank and Gaza. We believe that these requests represent the absolute minimum amount necessary to further U.S. interests.

In the case of Lebanon, it is our contention that $775,000 is woefully inadequate to do so.

I would like to make a couple of general comments before getting into specific country comments. First of all, a few comments about the importance of the Arab world. It is a very large piece of real estate covering two continents. The 21 Arab countries cover 5.5 million square miles, one and one-half times the size of the United States, and 187 million people live there.

Some of the world's most strategic areas are here. Morocco forms the southern part of the Strait of Gibraltar. Egypt's Suez Canal allows Indian Ocean shipping to enter the Mediterranean without circling Africa. Some of the world's richest oil reserves are found under Arab soil.

On the economic level, the Arab world has proven to be invaluable to our country. At a time when U.S. trade deficits with the world as a whole keep breaking record levels, the United States has had a trade surplus with the 21 Arab countries each of the last 4 years.

I would like, however, to make the point that while United States interests have enjoyed remarkable success worldwide in the last several years and certainly democracy has flourished, whether it is in the Philippines or in South America, it seems as though United States interest and United States standing has fared most poorly in the Middle East. It is obviously not for lack of moneys being earmarked for that area.

I would point out to you that fully 50 percent of the combined FMS economic support fund moneys in fiscal year 1986 went to the Middle East region, actually to two countries, and this year's proposal has 65 percent of the total worldwide economic support fund and FMS moneys.

I would contend that our problem is similar to the problem when there is a small breakdown in a complex organization. Slowly but surely, the small breakdown gets larger and the problem worsens. Indeed, that has been the circumstance in the Middle East.

I believe our small breakdown has been to focus unusual amounts of money toward one country, Israel, and at the same time not condition in any respect our sending these moneys and, last, not to react when indeed our interests have been damaged by actions of Israel.

I would like to comment now on several individual countries. With respect to Egypt, we believe the need of Egypt for the aid is very strong. With 15.5 million people they have a GNP per capita of only $720.

In the case of the West Bank and Gaza, $18 million is requested. This was in fiscal year 1987, excuse me, $18 million; however, they seem to have only gotten $8 million. The administration is requesting $12 million. Again, we wholeheartedly support it. We do note that only about one-third of the project approved by AID have been accepted by the Israeli Government.

With respect to Israel's aid, we think that the $3 billion in economic and military systems is unjustifiably high. We note the GNP per capita is $5,000. We particularly feel that several aspects of the aid, such as the Lavee aircraft, in reaction to policies such as the Pollard case, the Iran case, the occupation in southern Lebanon, require some United States action by way of conditioning or curtailment of United States aid.

Thank you kindly.

[The prepared statement of Mr. Sadd may be found in the appendix.]

Senator Adams. Thank you very much, Mr. Sadd, for your testimony.

Our next witness is Mr. Basil.

STATEMENT OF ROBERT BASIL

Mr. Basil. Thank you, Mr. Chairman.

The events of the last few days have resulted in some modification of our presentation. I want to emphasize, a crisis.

Three days ago, Syria started the next to final phase of its long-held dream of hegemony over Lebanon. Seven thousand Syrian troops, backed by Soviet-furnished tanks, entered west Beirut to stop the intense and bloody conflict between warring militias, and to establish control and order.

Despite serious concerns over Syria's ultimate objectives in Lebanon, this massive military entry has been given guarded support from most people and nations including the United States.

The exhausted people of west Beirut hope the uncontrolled militia battles will stop. The beleaguered Palestinian civilians in the refugee camps hope the Amal seige will cease. The United States and Western Europe hope Syria will remove the terrorist camps and free the hostages.

The Israelis hope Syria will contain and eliminate armed PLO strength in Lebanon.

And most nations hope Syria will disarm all militias and support central government control over a chaos-ridden country.

The truth is that Syria over the past 11 years has cynically created all these problems in Lebanon and then postured itself to be the only salvation against the very problems it created.

In the early 1970's massive Syrian arms shipments created the armed PLO and Saiqa armies which attacked and threatened to destroy Lebanon, only to have Syria intervene to defeat its own creations and perpetuate their major military presence.

Since then Syria has armed the leftist PPS militia, the Druze militia, the Shiite Amal militia, encouraged all to undermine the central government and to fight each other.

Syria has alternatively backed the Druze against the Christians in the Chouf, the Alouites against the Sunni Moslems in Tripoli, the Shiite Amal against the Druze and Palestinians, and ensured that west Beirut has become the most vicious 5 square miles on the face of the Earth.

Syria has been the kingpin of terrorism. The convictions of Syrian agents in London and Germany, the permitting of major terrorist bases in Syrian-controlled territory in Lebanon, and its involvement in major anti-United States and anti-West terrorist actions resulted in both Houses of Congress writing letters to President Reagan just 3½ months ago demanding sanctions against Syria for its leadership in international terrorism, and we'll submit these for the record.

If Syria's intentions are to control Lebanon's sovereignty, the final step will be executed after its consolidation of west Beirut. We can then expect that the Christian areas of east Beirut and the mountains, the last remaining stable areas of Lebanon not under foreign control, will be destabilized by a campaign of car bombings and armed military action orchestrated by Syria.

This will result in Syria once again raising the pretext of imposing stability in order to invade and take control of the last areas of free Lebanon.

What is Syria's price today for imposing stability in west Beirut and the terrorist camps? Just 14 months ago, in December 1985, Syria's price, as negotiated in the now-defunct Damascus agreement, required Lebanon to place its foreign policy, domestic policy, education, army, and other key institutions under Syrian control, and essentially to reeducate the Lebanese to the Syrian way of life.

And a summary of that agreement here is entered for the record.

Syria's determination to crush the Lebanese economy and the Lebanese will to resist has resulted in the stagnation of the country's once model economic system, the devaluation of the Lebanese currency from 4 to 100 pounds to the United States dollar; and the specter of numerous families being unable to afford food and the basic necessities of life.

The next few weeks will determine Syria's intentions and hopefully the United States response.

Mr. Chairman, we're discussing the fate of a nation, a respected member of the community of free democratic nations, and of its right to remain free and sovereign.

Is it possible that everyone is tired of trying to counteract the years of sustained Syrian effort to disrupt Lebanon at all levels of its government, society, and economy?

They tried it in 1976, and we made a mistake, hoping Syrian control would moderate its behavior toward the United States, the West and Lebanon. It didn't work then, and it won't work now, because the Lebanese people won't accept it and will fight it.

And because Syria will use their Lebanese acquisition to strengthen their anti-United States, pro-Soviet hard line destabilizing behavior, thus representing a major geopolitical defeat for the United States and the West.

The American Lebanese League consequently recommends the following actions. The United States should state its full support for a free, democratic, sovereign Lebanon and its duly constituted government.

Two, the United States should condemn the illegality of a major deployment of Syrian troops in the west Beirut, and state its strong opposition to any wide deployment of the Syrian army into other areas, especially east Beirut.

Three, the United States should request Syria to stop its activities of creating political and economic chaos in Lebanon, and permitting terrorist bases and actions in areas under Syrian control.

Four, the United States should give major humanitarian aid to Lebanon's suffering population including medicine, food, and physical and psychological rehabilitation.

Five, the United States should forgive the $100 million that Lebanon owes on the purchase of military equipment so that these funds can be used to help the people.

The notion, Mr. Chairman, of feeding the carnivore of free people in the hope of quelling his destructive behavior is always illusory. As the great American patriot Patrick Henry implored his Virginia colleagues before the revolution who were considering giving up their freedom for the sake of peace and stability, "it is natural for man to indulge in the illusion of hope. We are apt to shut our eyes against the painful truth, and listen to the song of that siren till she transforms us into beasts. The gentlemen may cry peace, peace, but there is no peace. What is that the gentlemen wish? What would they have? Is life so dear or peace so sweet as to be purchased at the price of chains and slavery?"

Mr. Chairman, is the life of a hostage so dear, or accommodations with Syria so sweet as to be purchased at the price of chains and slavery for Lebanon?

Thank you very much, Mr. Chairman.

[The prepared statement of Robert A. Basil may be found in the appendix.]

Senator ADAMS. Thank you, Mr. Basil. The Chair has a few questions, and then I will defer to Senator Simon.

Mr. Sadd, Mr. Basil, would you comment on this question. How can any amount of aid be justified for Lebanon given the chaos and the lack of a functioning governance there which in effect can both receive and administer such aid?

And Mr. Sadd, I'll start with you, and then Mr. Basil, I'll turn to you.

Mr. Sadd.

Mr. SADD. I think, No. 1, that U.S. aid is an important symbol, however it is administered.

But No. 2, there is a specific need of two kinds of aid which I believe can be administered. One category is humanitarian aid, through the private voluntary organizations.

We've all witnessed pictures of starving Lebanese children recently in the media. And one of the problems simply is the amount of supplies that are available.

Senator **Adams**. You think that private voluntary aid can function in the present situation, Mr. Sadd?

Mr. **Sadd**. There will be times when it can't. When the Palestinian camps were blockaded, they couldn't have gotten through.

But beyond that, for the most part, they can. I have to make a point that all of the kidnaping, virtually all of the kidnaping we've seen of Westerners in Lebanon has been confined to a 4-square-mile piece of property controlled principally by the Iranians through the Hezbollah.

Outside of that, there is relative—perhaps not calm in our sense, but many Lebanese friends of mine go back and forth and visit. And again, they stay out of the particular troubled areas.

I have to make a point to you. The Lebanese pound has caved in. It's gone from 4 or 5 to the $1 to 130 or 140 to the $1. And people are simply unable to afford the most basic commodities.

So certainly humanitarian assistance can be administered by PVO's, the Red Cross, the Red Crescent Society.

Last, I would make a point. Ultimately, the only hope for Lebanon is that somehow the legitimate government's army be able to assert itself. So that whatever assistance we can provide to the army of the central government of Lebanon, to keep its morale, to keep its professionalism, that is important.

And again, I think it can be provided. It may be in barracks. It may be not functioning. But we must do whatever we can to keep that army's integrity, looking forward to the day when it may be able to go out and perform its job.

Senator **Adams**. Thank you, Mr. Sadd. Mr. Basil.

Mr. **Basil**. Mr. Chairman, the question of aid to Lebanon is both real in humanitarian terms, and symbolic from the point of view of United States and Western support to the nation.

I think the third category of aid, which is aid to the army and other institutions for purposes other than humanitarian at this time may be premature because of the chaotic situation you mentioned.

However, first, from a symbolic point of view, I think the United States has done and is now still doing everything wrong from a symbolic point of view.

It is giving the appearance to all of the people who would victimize Lebanon that the United States simply doesn't care anymore and is withdrawing from the situation.

That was highlighted recently by I think the mindless policy put out by the State Department of stopping American Lebanese from using their passport to visit Lebanon.

It's been interpreted throughout Lebanon as utterly demoralizing the population; that the United States has almost totally abandoned the country, which is the only bulwark of free, sovereign, pro-West, pro-United States feeling in that part of the world; in the Arab world, certainly.

So humanitarian aid would be an enormous symbol of U.S. backing and concern to the suffering population. As Mr. Sadd pointed out, many families face starvation; just the ability—they lack the ability to get food and clothing and send their kids to school because of the collapse of the economy that's been orchestrated by Syria.

So we're facing a terribly serious problem.

There is no question—and I've been to Lebanon a number of times and seen how simple it is to administer these humanitarian funds. And they can be very effective.

And I would urge that they be done not through private organizations but through the Lebanese Government, because then again, by doing everything through private organizations, we give the impression of bypassing a Lebanese Government almost as if it doesn't exist.

So I guess in summary, Mr. Chairman, the humanitarian funding can be of enormous moral and real support in helping the people; done properly, and given to the Lebanese Government, it will show the extent of support we, the United States and the West, have for the government and its institutions.

And it's a duly constituted government, I will remind you, Mr. Chairman.

And the third category of aid, which is the military and other aid, should probably be held off until larger actions can be taken by the United States and other countries to stabilize and secure the territory of Lebanon more firmly.

Senator ADAMS. Thank you, Mr. Basil. I'll withhold my other questions until the second round.

Senator Simon.

Senator SIMON. Thank you, Mr. Chairman.

After I finished reading your prepared statements, I started going through the Tower report here.

The Tower report really is a recitation of our failure to do affirmative things. And we just let a situation deteriorate.

That is almost a good description of the Middle East, of a Lebanon you've just talked about; of Cyprus, where the lines, along the green line, things have hardened; of Israel and her Arab neighbors.

On the Cyprus situation, let me just say to anyone who is here from the State Department, that the questioning that Senator Lugar and I did the other day of Mr. Derwinsky, I've had a chance to talk to a couple of my colleagues in the community since, there is a strong feeling that the Cyprus situation is going to harden and become worse unless the United States provides leadership.

I'm not opposed to United Nations leadership. But the reality is, at this point we can't have much confidence that that's going to do anything.

Lebanon, I desperately want to help that poor country. I can remember visiting Lebanon when it was as beautiful a country as you can find anywhere on the face of the Earth.

I'm not accepting any invitations to visit Lebanon today.

What we do, I heard your statements, I'm eager to do anything constructive. I am less sure exactly what we can do that is constructive.

Mr. Sadd, if I may specifically talk about your statement—and incidentally, let me just say that I'm aware that there is discrimination against Arab Americans in this country. It's not part of your subject here today, but I'm opposed to discrimination in whatever form it arises.

One of the reasons for that, however, is also clearly the problems in the Middle East.

In your talk about aid to Jordan, you say, perhaps no other country in the Middle East has done as much as Jordan in recent years to promote the search for peace in the region. For over a year, King Hussein made a strong personal effort despite pressures from hardliners to revive the stalled Middle East process.

Then you say, we believe the aid level the administration has proposed for Jordan for fiscal year 1988 is woefully inadequate.

I suggested to Secretary Shultz in here about 2 weeks ago that he ought to be moving personally—I have nothing against Dick Murphy, the Assistant Secretary who has been moving in that area of the world, but there really needs to be a leadership that we are not providing to bring things to move in the right direction.

I would be pleased to vote for more aid for Jordan if Jordan joined in sitting down around a table with Israel on the peace process. And I think that is the essential step.

It's the essential step that President Sadat took. It is a step that King Hussein, up to this point, for reasons that I understand—it is a tough situation for him—but I think that is the essential step that has to be taken.

That is the next step to bring peace to the Middle East. Then we're not going to have—No. 1, we're not going to have to have as much money, perhaps, in the Middle East; then Lebanon, we can start moving in a much more constructive direction there.

Any reactions, if I may ask Mr. Sadd and Mr. Dine and Dr. Basil, any reactions?

Mr. SADD. Well, I obviously think we agree that Jordan is important and needs more help, and that it's difficult to get the peace process started.

I certainly agree with you that the effort needs more of a priority on the administration——

Senator SIMON. I'm going to ask my colleague to stretch out my time for a couple of minutes here.

Senator ADAMS. Please go ahead.

Mr. SADD. It needs more of a priority on the administration's side. A lot of what ultimately affects the ability of decisionmakers to take the next step relates to a general level of confidence.

And I have felt that we have not been sensitive enough, or attentive enough, to the different things that affect the different level of confidence and allow people to take next steps, whether it's King Hussein, whether it's Arafat, whether it's the Israeli Prime Minister.

And I believe that often we're not attentive enough or able to move quickly enough, because there's not a high enough level of day-to-day concern on the administration's side. It has tended to be a fourth or fifth priority, how are things going over there kind of a thing.

I do not think, though, that it's going to serve us to leave Lebanon until later. We have to pay attention day to day.

This morning on national public radio as I drove in they were reporting about a Shiite demonstration in Lebanon. And they reported that the people were calling death to Israel, death to the United States, and death to Syria.

So we've moved into a new condominium. These are people with gaining strength who owe their allegiance to Khomeini.

And again, I just don't think we can afford to put Lebanon on the back burner. And by the way, I must apologize, I remembered something very easy to do with respect to Lebanon's finances that don't need administrative ability, and that is to forgive some of the existing FMS debt on the books.

Back in 1982, 1983 timeframe they took on several hundred million dollars of debt and are faced with that debt service burden this year and next year. So that would be one constructive thing you'd be able to do without concern about their administrative ability.

I'd also mentioned that I attended a Friends of Peace Now conference in New York over this past weekend. Again, much of the discussion tends to hinge on confidence, confidence of Israelis that indeed they'd be accepted into the Middle East if there were peace, confidence among Palestinians that indeed any Israeli government would be willing to give the West Bank back, et cetera.

So I have to give a summary response that I don't think it's high enough priority; it certainly is financially, if we can give 60 percent of our entire ESF and FMS budget for that part of the world, it would seem it ought to get 60 percent of the highest attention we can get from the administration.

I don't think it does, and I think it falls apart, therefore, because most of the key decisionmakers don't have the confidence and don't feel as if they can count on, at every stage, the United States to support what needs to be supported.

Senator SIMON. OK, if I could just respond, and I'm taking time from my colleague here. But I agree with you that we have not put high enough priority on the diplomatic side. I agree completely.

And I would just urge you through your friends to convey to King Hussein that there are many of us who would be eager to provide greater assistance, who are very reluctant to vote assistance until Jordan formally joins that peace process.

And anything we can do to provide greater assurance to Jordan that if Jordan comes aboard in the peace process, we're going to be there foursquare, I'm eager, and I think my colleagues are eager, to provide that assurance.

Mr. DINE. In terms of continuity, why don't we go to Mr. Basil.

Mr. BASIL. I'd just state briefly, Mr. Senator, that your fundamental premise is correct. I think much of the problem lay in this administration's and past administrations' lack of initiative such that we can bend the future to our will, to our national objectives and purpose, rather than simply reacting to deteriorating situations.

And I think we find ourselves in precisely that situation now in many parts of the Middle East, Iran, Iraq, the Middle East peace process, and certainly in Lebanon.

The administration has withdrawn completely from Lebanon; feels it's of no priority; thinking that the monster that emerges from this Lebanese well will somehow disappear and go away.

They must understand that the only route, the unavoidable route, to the next step to peace and stability in the region is through the Lebanese door. They cannot avoid entering and facing squarely the problems of Lebanon once they go through that door.

But with imagination and initiative, that can easily be solved, we believe, to great constructive benefit to the United States.

Because even though we dwell upon the fighting of the various segments of the community in Lebanon, no individual and no community in Lebanon does not yearn for the Lebanon you've described.

They all remember those golden days when Lebanon was the model democracy of the region. It was civilized. It was cultured. It was everything we hope for in a democracy.

It was a model for all of the kingdoms and dictatorships. It was a model for them to become.

And all of these segments of the society yearn to return to that and despise the present chaos that's been so stimulated and exacerbated by Syria and the other regional powers.

So the United States can, with imagination and initiative, I think bend the future to our will and with vision and a more dynamic sense of purpose, create situations which will be very, very constructive, and even in the very near future.

Senator SIMON. Thank you.

Mr. DINE. Senator Simon, I think Anwar Sadat is the role model for King Hussein or anyone else. His trip to Jerusalem was really in response to things that were happening in the United States that he didn't like, as well as response to needs of Egypt and what he saw as his vision for the future of Egypt and the Middle East.

So King Hussein has got to engage in direct negotiations. He continually skirts around that. He tried to work it out with the PLO. The PLO didn't work.

He distanced himself from the PLO, but not enough that he avoided a veto by the PLO. Now the Saudis and the Kuwaitis are holding back money for economic development on the West Bank until King Hussein joins again closely with Fatah, with the PLO.

But all that is, to me, is just a dance avoiding the fundamentals, and that is, the direct negotiations that have to take place between Amman and Jerusalem, between the two leaderships, probably without American molding of it, as in the case of Sadat and Begin.

But obviously, they would have our blessing. They would have access to our generosity for good, self-interest reasons.

The rest of it to me is just unnecessary decoration. I was recently at a conference at the Dead Sea. Even a Likkud Prime Minister was pleading that he was so close to Jordan, but still, no success.

Certainly the previous Prime Minister, and the current Foreign Minister, has gone way beyond the bounds of the National Unity government, to the point that there's now trouble in the National Unity government as he visits Cairo in trying to encourage King Hussein to cross the river.

So I don't necessarily share everybody's enthusiasm today, as just recently expressed, that it's up to the United States.

I believe it's up to King Hussein, and that's where the burden is. The economic aid, the economic trade, the military hardware, will flow afterward.

Senator SIMON. If I can take 30 more seconds, I agree that it is up to King Hussein. I would also, however, agree with Mr. Sadd that the United States I think has to provide that assurance. There has to be a base here that he feels confident in.

Mr. DINE. The United States, Senator, if I can interrupt you, has been trying to provide that assurance. I remember back in 1966 when President Johnson provided tanks to the King because the King said he needed them against Syria or Iraq at the time, and then they ended up in Israel.

So we've been trying to do that for a long, long time.

Senator SIMON. I am not suggesting, in fact, I'm voting against, as you know, I'd vote against weapons for Jordan. I am not in favor of providing assistance prior to joining the peace process.

But I think there needs to be a strong, clear, certain message from the United States: We want the King to join the peace process. If he does so, we're going to be there with every possible assistance.

Mr. DINE. OK, just one more intervention. It is my understanding that Secretary Shultz and King Hussein of Jordan, in 1984, in 1985, discussed these various issues.

The King went to the United Nations, and then didn't quite go all the way, as he had indicated he would, after meeting with Secretary of State Shultz in the Gulf of Aqaba, and there were a transfer of assurances between, again, Amman and Jerusalem, quietly.

I don't know what it takes. I don't know what it takes. I would be with you, right behind you, cheering when the occasion occurs.

Senator SIMON. I guess I think what it takes is more attention on our part.

Mr. BASIL. Mr. Chairman, if I may make one brief sentence. As long as all the regional instability resulting from the unresolved regional conflict, as long as that instability and violence remains contained in Lebanon such that the various nations accrue no negative consequences of that resulting instability and violence, there is far less incentive for the various parties to do anything about it.

Senator SIMON. Thank you, Mr. Chairman.

Senator ADAMS. Do you have any further comment, Mr. Dine, that you wish to make, or Mr. Bloomfield?

[No response.]

Senator ADAMS. Mr. Manatos, I had a question for you. Because Senator Simon asked the questions that I had to the panel on the particular status between Israel and Jordan.

What is the status of the Turkish-Cypriot declaration of unilateral independence that was made several years ago?

Mr. MANATOS. Well, the nation of Turkey is the only one in the world that has recognized that declaration of independence. There was an effort made in the last couple of months by Turkish Cypriots among the Arab nations to gather additional recognition, and they were rejected.

The United Nations, of course, has completely opposed that, and the American Government, all aspects of the American Government, have opposed this declaration of independence.

Senator ADAMS. What reaction do you have to the administration's request for $10 million in economic support funds for Cyprus? Do you support it or oppose it?

Mr. MANATOS. We are encouraged that it's greater than the $3 million they usually request, and are discouraged that it's less than the $15 million that the Congress gives them annually. And we strongly support the $15 million amount.

It's frankly the least we can do for the poor country of Cyprus, who I might add, in every terrorist situation comes to our aid and the aid of our delta force tremendously.

Senator **Adams**. Mr. Dine, what in your view will be the likely ramifications of the provisions of last year's defense bill which made Israel a major non-NATO ally?

And I'm specifically referring to the fact that this qualifies Israel for R&D contracts from the Pentagon. What amount is being discussed for next year?

Mr. **Dine**. Mr. Chairman, no specific amounts are being discussed that I'm aware of. What all that legislation does, in shorthand, is give Israel the opportunity to give our Government the option of allowing them to participate in contract negotiations.

From our perspective, some of the research and development in high technology areas that the Israelis have, are capable of performing, we, the United States, ought to share in. And a lot of that thinking is behind the amendments.

In one specific area, for instance, although it's of controversy, the strategic defense initiative, there is strong feeling that I'm aware of in both Armed Services Committees, and both Appropriations Subcommittees on Defense here, to encourage Israel to help the United States deal with the Soviet SS–21 ground-to-ground missile problem, and providing Israel the R&D contracts therefore to do research into antitactical ballistic missile areas.

That is of fundamental importance to the American and NATO role in Europe, as well as the Israeli concern with SS–21's in Syria.

Mr. **Bloomfield**. Mr. Chairman, the current law authorizes $40 million for matched funding, and we would hope that at least $40 million would be authorized again for fiscal 1988 for these cooperative R&D projects, and that that legislation itself, as passed in fiscal year 1987, would be reauthorized by the Congress.

It lets the countries that have been designated by the Secretaries of State and Defense, which are Japan, Australia, Korea, Israel, and Egypt, join in these programs, similar to the programs we have now for cooperative R&D on a much larger scale with our NATO allies, so that we can share the technological capabilities of these non-NATO allies, the way we do with our NATO allies.

Senator **Adams**. Gentlemen, do you have something else?

Mr. **Lomis**. Yes, I'd like to add some on your question regarding the $10 million to Cyprus. It's at least a modicum of truth, Mr. Chairman, that the United States bears an important responsibility for what has happened to Cyprus. And unless we maintain the $15 million per year, we'll be sending two bad signals, I believe.

One would be that we really don't care too much as to what is happening to Cyprus. And the other one, that telling Turkey that we are really—for the same thing, we're not really staying behind Cyprus.

I think the $15 million to Cyprus is the least we can do to keep on telling those people in the most basic manner that we care as to their plight.

Thank you.

Senator **Adams**. Mr. Manatos.

Mr. **Manatos**. Could I correct the record on something in my testimony? Apparently there was a typo.

The current troop level, Turkish troop level on Cyprus, is 35,000. My testimony has 25,000. If that could be corrected in the record, I'd appreciate it.

Senator **Adams**. The record will be so corrected, without objection.

Mr. Sadd.

Mr. **Sadd**. Mr. Chairman, there are two points that I think it's important to leave.

One, in this discussion of a peace in the Middle East, of peace between Israel and its Arab neighbors, no one has talked about Israel's negotiations with the representative of the Palestinians. It is those people who have the contest with Israel, and it is those people, the Palestinians, who the rest of the Arabs will not leave.

So let us pay some attention again to Israel's negotiation with the representative of the Palestinians, whoever that representative may be.

Obviously, the representative that the Palestinians choose and indicate they will choose is the Palestine Liberation Organization, and that is their right.

The second point I want to make has to do with the major non-NATO ally status. There are a lot of countries who I think deserve major non-NATO ally status. Certainly Saudi Arabia is an important, important country.

I don't believe we should be developing non-NATO status on the basis of where somebody stands with respect to an Arab-Israeli peace negotiation.

Second, I would make a point to any R&D contracting and licensing that's going on in this regard: In the supporting information of the congressional presentation book, in the section on trends and foreign defense transfers, you'll see that the U.S. portion in the world defense markets has dropped from 43 percent in 1983 to where they suggest it will be 25 percent now.

We don't need to be exporting our technology and our jobs.

I would also point to another document in the additional information section which tallies expected licenses for technology that are going to be given to foreign countries, and for a reason which escapes me, Israel is ahead of Germany, Britain, France. I didn't realize that their R&D base was that large in the military area, but I think it deserves a little scrutiny why Israel's—why the expected export of technology licenses to Israel would be the largest of any country in the world for fiscal 1988.

Senator **Adams**. I want to thank all the members of the panel for their presentations this morning.

I will repeat the statement I made at the beginning of the hearing, that the record will remain open until Friday afternoon for any additional information you wish to place in it.

On behalf of the committee, we want to thank each and every one of you for your time this morning and for the excellent testimony.

The committee will stand in recess.

[Whereupon, at 12:02 p.m., the committee adjourned.]

FOREIGN ASSISTANCE LEGISLATION: FISCAL YEAR 1988 FOREIGN ASSISTANCE REQUEST

TUESDAY, MARCH 10, 1987

U.S. Senate,
Committee on Foreign Relations,
Washington, DC.

The committee met at 10:06 a.m., in room SD-419, Dirksen Senate Office Building, Hon. Claiborne Pell (chairman of the committee) presiding.

Present: Senators Pell, Sarbanes, Dodd, Kerry, Simon, Sanford, Adams, Helms, Kassebaum, Boschwitz, Pressler, Murkowski, Trible, Evans, and McConnell.

The Chairman. The Committee on Foreign Relations will come to order for this, the fourth and final day of the full committee's hearings on the administration's fiscal year 1988 authorization request for foreign assistance.

Two weeks ago, our committee heard an impassioned plea from Secretary Shultz to adopt the President's full budget request of $14.3 billion for foreign assistance.

Secretary Shultz stated:

> We face a serious foreign affairs budget crisis. If left uncorrected, it will directly threaten our ability to exercise coherent and consistent foreign policy leadership in support of our national interest.

I am deeply sympathetic to Secretary Shultz' appeal, but it is important to realize that the administration's fiscal year 1988 request marks the seventh consecutive year that the administration has sought increases over what was available the preceding year for foreign assistance. This year's request represents a 14-percent increase over last year's appropriated level.

We should bear in mind here, too, that the State Department says this request is really the first line of defense of our country. I agree with the Secretary of State in that regard. The problem we face is, as our mayors put it last week, here we are, helping the towns and cities of foreign countries and our own towns and cities are finding themselves depleted of the programs on which they have come to depend.

During the course of this morning's hearings, we will hear from a distinguished panel of administration witnesses—Edward J. Derwinski, Under Secretary of State; AID Administrator, Peter McPherson; and the Director of the Defense Security Assistance Agency, Gen. Philip Gast.

I would ask each of these panelists to address the question of how they would propose to allocate funds among the programs and competing priorities, if necessary, to adjust to the realities of the Gramm-Rudman-Hollings deficit reduction process.

I welcome you and look forward to this morning's discussions on how best to optimize American interests, humanitarian as well as security, through foreign assistance in the context of a budget deficit crisis.

My own personal view and emphasis is, as you know, to increase the humanitarian side and to decrease the security side.

Gentlemen, who will lead off?

Mr. Derwinski.

STATEMENT OF HON. EDWARD J. DERWINSKI, UNDER SECRETARY OF STATE (DESIGNATE) FOR COORDINATING SECURITY ASSISTANCE PROGRAMS

Mr. **Derwinski**. Thank you, Mr. Chairman.

I have a statement which I would ask to submit in full for the record, and I will just very briefly touch on the high spots.

Quite frankly, we poured so much work into the appearances of the Secretary that I don't feel that hammering away at the same theme is as necessary for me as it is, perhaps, to give it a personal wrinkle.

I am a sort of newcomer to this effort. I have looked at the figures that we are working with and, quite frankly, we are having a difficult time living with the 1987 figure. That is why, as you know, Mr. Chairman, we have a substantial request for a supplemental.

But I think the point could be made more effectively if we take one or two of the smaller countries and demonstrate, in the process, our interest, but also show our frustrations and limitations. I will take two in Africa which I think dramatize the case as well as any.

One is Guinea. After the death of Seketoure, the new leaders of Guinea made a conscious effort to shift toward the West. We played a very small role. We have a total program for 1988, which primarily is economic assistance and Public Law 480—those are the two sizable programs—of just $18 million.

Now, the Soviets are still there with substantial influence. But one of the things we did early on was to provide a patrol boat. We then trained the crew of the Guinean navy, and one of the first "catches," if I may use that term, was their arrest of a Soviet fishing trawler that was in violation of the fishing agreement between Guinea and the Soviet Union.

That was a case that helped drive home to them the need to more effectively patrol their own resources. If they should ask us for more assistance of this kind, under the budget situation that we face, we just could not provide it.

We also have a very small IMET program there, $150,000.

Now, the General is a very modest man, as all Pentagon officials are, and they take credit for very little. But, somehow, in selecting the first few officers to benefit from the IMET program, it turned out that one of the men they selected is now the Foreign Minister of Guinea.

I think we all acknowledge that is probably more by accident than it was by brilliance, but it is a practical result of the program.

There are a number of countries that I would add to that list—Togo, possibly Benin—where we have very small programs, and the idea is to slowly get these countries to shift Westward.

On his recent visit to Africa, Secretary Shultz emphasized just that, the need for a new generation of African leaders to work with us in the area of economic cooperation. Well, economic cooperation includes some of these support programs that we are asking for funds for.

Let me turn to what is perhaps a more controversial, but, nevertheless, a necessary subject. We have the situation in Chad, in which for years, Colonel Qadhafi has attempted to occupy part of the country. But, more than that, he has tried to extend his influence deeper and deeper into the country.

The French are there in substantial number. But the U.S. program has been consistent. We have a MAP program; we have, again, Public Law 480: and, again, economic assistance. But Chad is a country which is facing a substantial challenge. Should the situation take a more difficult turn, a little extra assistance would be in order.

But, we don't have the funds. It is just that clear.

Now, as you notice, Mr. Chairman, in these brief comments to you I am not discussing the Middle East, or Central America, or our base rights countries, because we have all gone over that debate in detail and we all know how important they are.

With the base rights countries, I think the most dramatic problem is that demonstrated by the Secretary's constant reminder of our problem with Spain. Here we are negotiating a new base rights agreement with Spain, and the budget cuts, as applied to Spain, are approximately 70 percent.

This means that Ambassador Bartholomew is sitting there, trying to negotiate, with very little to offer. If we take into account the value of the Rota Base, the Torrejon Air Force Base, and others, we see the significance of those negotiations. And yet, because of these budget cuts, we really do not have the wherewithal to give our Ambassador the flexibility he needs in those negotiations.

I could go on and on. But I have a feeling, Mr. Chairman, that you, more than anyone else, appreciate our problem. Our problem basically is that we were cut much deeper than we should have been in any proportional or balanced way in the last 2 years. The national security is at stake. The role of the United States in helping 50, 60, 70 friendly countries is at stake. And, while we are not advocating just dollar diplomacy, if we take a look at some of these smaller countries, such as those I mentioned in Africa, a $2 or $3 million program is tremendously important in maintaining goodwill, especially now that there is a definite trend toward Western economic leverage in those countries.

The only other point I would make, Mr. Chairman, in anticipation of possible questions from you or other members of the panel, I do have some material on our relations with Pakistan and the issue of nuclear proliferation that has been raised in recent days. I am prepared to address that should that question be directed at me.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Derwinski may be found in the appendix.]

The CHAIRMAN. Thank you very much, Mr. Derwinski.

Mr. McPherson.

STATEMENT OF HON. M. PETER McPHERSON, ACTING DIRECTOR, INTERNATIONAL DEVELOPMENT COOPERATION AGENCY AND ADMINISTRATOR, AGENCY FOR INTERNATIONAL DEVELOPMENT

Mr. McPHERSON. Mr. Chairman, it is good to be here again.

I would like to make a few basic points about the economic assistance program. I have a written statement, which I would submit, if I may, for the record.

The CHAIRMAN. We will put it into the record as if read.

Mr. McPHERSON. I think it is important to keep in mind, as you have pointed out here and in previous hearings, that the U.S. economic assistance program produces substantial U.S. benefit.

I know that you need to go back to your State to defend your votes in support of that program, and I know that you appreciate the fact that our foreign assistance programs benefit America. The fact is that two-thirds of the program comes back to the United States with the purchase of goods and services, including, certainly, several million a year to your own State. The fact is that, over time, we know that as countries' incomes go up, they are in a better position to and, in fact, history shows that they buy more from this country. So, in some sense, the economic assistance program is an investment in our own country's future.

Unquestionably, U.S. foreign policy interests are greatly benefited. What would Asia be like if there had not been a green revolution on the subcontinent? You would have had a dramatically less stable subcontinent in Asia, with the kind of continuation of near starvation that existed in India as late as the mid-1960's.

It seems to me that, on the basis of our own security, trade, and other interests, this program makes sense. I know that is a point that you appreciate.

I think it is also important to point out that this program over the years has really been effective. I think you have a chart before you, Mr. Chairman, showing what has happened to agricultural production, particularly food production in Africa in the last couple of years. For almost two decades, food production on a per capita basis was going down in Africa, but in the last year, particularly, that food production is up about 30 percent from what it was during the famine, and is substantially up from the average of previous years.

This is due to a variety of factors. One of them is rain. But, unquestionably another factor, Mr. Chairman, is that we were able, along with the World Bank and others, to persuade these countries, that it was in their own self-interest, most of all, that they needed to raise the prices paid to the farmers. And farmers responded when they got paid more.

We calculated that last year Africa may have produced enough food for its own consumption assuming the food had been properly distributed around the continent.

That is an enormous achievement on the part of Africans and it was achieved with our help. It is indicative of an effort which has been going on for a few years. As a country, we can be very proud of our contribution to that effort.

There are a number of other things. I think you also have a copy of our environmental plan for Africa. I know that is an area of interest to you. It is a plan that we have worked out quite carefully. I hope you have a chance to take a look at it.

Looking back over the last 25 years or so, we know that life expectancy has increased substantially—by 10, 15, or 20 years, depending on the area. There are about half as few children dying today in the Third World, per 1,000 born, as died 25 years ago.

Those are programs where we have done some concrete things.

Incomes are up in most countries, and so on.

It is a program that has been successful.

Let me mention a series of particular things.

The administration has proposed an Africa fund. Africa is a continent which, a few years ago, was looking to the East for some help and for philosophical guidance. That has changed, reflective of those agricultural production increases. We have an opportunity in Africa, and we need to put some funds behind that opportunity.

We have proposed a development fund for Africa. Frankly, what I have asked for is some flexibility in managing those funds, and I hope that this committee can continue with that and can be supportive.

This committee, under Senator Kassebaum, had substantial hearings that were, in fact, something of a "godmother" to this effort. I hope you can be very supportive of this proposal.

This leads me to a general point. It is true that our levels are not what we need this year and we know the budget struggle will continue. But I hope that the committee will give us the maximum flexibility in both managing and allocating our program with the levels that we get, because earmarks, by country and by activity, and other restrictions, sometimes bite as deeply as the lower appropriated levels do.

I know there are concerns here or interests which committee members personally have, and we appreciate those. We are anxious to talk to you about them.

But, in general, Mr. Chairman, as the committee and you personally can appreciate, and I know you do, restrictions on how we spend the money at times are almost as important as the total amount of money. They both bite. We need as much flexibility from you, Mr. Chairman, and from this committee as we can have.

One of the things that I want to make sure we keep is the flexibility to use ESF for cash transfers, when appropriate. We have separate accounts for cash transfer programs. A good share of it goes to Israel. But the cash that we have been able to put into the Philippines and Haiti this last year has been of great help at a key time.

I want to continue to be able to have that flexibility for a whole range of reasons.

The functional accounts are of interest. I want to be sure that we continue with a major agricultural program and that we do not sacrifice agriculture for, let's say, health programs.

Now you know of my commitment to health. At the same time, it does not make a lot of sense to try to have more healthy children with various programs and to cut agriculture and food production. We know that the best way to keep people healthy is to have food available.

So, it is a balancing act. These are subjective judgments, in part, but I know that you will look carefully and do a delicate balancing act in putting together the functional accounts as we have managed.

The last point I have is my concern for the 106 account, which has a substantial private sector and private voluntary organization component. This account over the years has been cut in relationship to other accounts. But I have found, especially in Latin America, and in other regions as well, that 106 is a very important account for us to be able to use.

Mr. Chairman, it is good to be here today and I look forward to your questions and comments.

[The prepared statement of Mr. McPherson may be found in the appendix.]

The **Chairman**. Thank you very much, Mr. McPherson.

General Gast.

STATEMENT OF LT. GEN. PHILIP C. GAST, USAF, DIRECTOR, DEFENSE SECURITY ASSISTANCE AGENCY

General **Gast**. Thank you, Mr. Chairman. I am pleased to appear before your committee today.

I also have a written statement that I would like to have included in the record, and I will make some verbal remarks and will discuss some charts for you.

The **Chairman**. It will be inserted into the record as if read.

General **Gast**. Thank you.

[A series of charts was shown, they appear in the appendix.]

General **Gast**. Many of my comments, Mr. Chairman, will be drawn from Secretary Weinberger's statement not long ago before the House Foreign Affairs Committee. In that presentation, he joined his concern with that of the President and Secretary Shultz on the state of affairs as the result of the 1987 budget, and said that we could not continue without grave damage to our foreign policy and defense strategy.

He also pointed out that he believed we were facing a budget crisis of unknown proportions, and using this chart that is on my left (chart 1), he was supporting the entire budget request by the President and recognizing that there are many features and many functions within the 150 account which do, indeed, need to be funded.

He was not asking that it be at the expense of one or the other, but was asking that the Congress fully meet all of them, keeping in mind, as I think I have testified before, that we, in Defense, work very closely with Mr. Derwinski and his predecessors and Mr. McPherson to put together an integrated budget. We are very sensitive that we should recognize the economic aspects of it, that they have a lot to do with security as well as the military.

The Secretary reminded people that the activities which are here support the recommendation and pointed out that 25 percent of our GNP is foreign trade; that one out of six jobs is linked with foreign trade; that one-third of the profits of U.S. industry come from international activities; that 40 percent of our farmland produces for export; and also the fact that some $130 billion owed to U.S. banks is from overseas.

The CHAIRMAN. Excuse me, but would you hold the microphone a little bit closer so that we may hear you better?

General GAST. Yes, sir. I will. All of these features are, in fact, important as the Congress considers the President's budget.

Mr. Chairman, this chart (chart 2)—and we have colored charts before you—displays the President's budget in its entirety and points out the percent that is within that budget for domestic as well as defense purposes, and then points out that today we are really talking about 1.7 percent of the President's budget for the 150 account.

The Secretary stresses that with this bill, he agreed with a 3-percent increase in defense only over 1987 and that he was relying heavily on that part of the 150 account that goes for security, economic as well as military. He was asking for consideration by the Congress in the total context here, in this very small part of the budget, on how to safeguard it and, in fact, to make it work more for us.

Mr. Chairman, this is a percent [indicating] (chart 3), this 2.3 percent of the Federal budget that has actually been appropriated by Congress and not what has been requested by the President. It shows a track record here.

The blue is the 150 account, the best that we could score it, with our looking back at history, and the red is the military assistance.

Now, the red typically has been about 29 percent of the 150 budget, and that is what it is today, total, on this previous chart.

This shows that the 150 account has enjoyed somewhere between 1.65 to 1.7 percent of the Federal budget, though it was higher than 1985, when we had the supplemental for Egypt and Israel, primarily Israel, for economic aid. It shows a very consistent theme which has been supported by the Congress, except for the considerable reduction in 1987, when it went down to 1.5 percent.

That is what concerns the President, Secretaries Shultz and Weinberger and those of us testifying before you.

Another point to be made is that it is a myth when people say military sales or military aid has gone out of control and has gotten out of proportion. This chart shows that in the Federal budget, our military assistance has held steady at about 0.5 percent. In other words, it has not been raised at the expense of economic assistance or any other programs.

This chart (chart 4) is on the same idea, except that it plots the economic and humanitarian assistance as a part of the Federal budget, as compared to the military assistance, which is shown in red, and shows that the average on economic has been about 0.9 percent, and, here, again, the military assistance about 0.5; that the ratio of economic to military has not changed, Mr. Chairman. The Congress has seen to that and the administration has listened carefully to the Congress and has maintained that ratio that I show you down here of roughly 60 to 40 over the entire period.

We are not asking for military assistance and the Congress has not appropriated military assistance at the expense of economic assistance.

This chart (chart 5) takes another look at the first one, Mr. Chairman, which groups the conduct of foreign affairs in blue, which is largely the State Department and it's diplomatic action ties overseas. The red represents information and exchange activities, such as BIB, VOA, and other programs, the green being economic assistance and, finally, the yellow being military assistance.

These are in balance, but the important part is from 1985, 1986, and, finally, to 1987, there was a 29- to 30-percent reduction in the 150 account as a part of the Federal budget—as a part of the Federal budget—and it has squeezed things down to very much of a level of concern.

Last year, in the military assistance account there were some $800 million less appropriated than there were in 1986. Not only were there some $800 million less appropriated, but the Congress, in an attempt to guard foreign policy and protect what it thought were the most important ones, earmarked five countries. This chart (chart 6) is scaled relative to the amount of military aid that each country got. Let me explain.

Israel got $1.8 billion. There is a green here which indicates an increase over 1986. It replaced the sequestered amount from 1986 and brought it whole to $1.8 billion; and, similarly, to Egypt.

These two countries themselves were almost 60 percent of all of the money that Congress appropriated. But the Congress earmarked three more—Pakistan, Turkey, and Greece. When it did that, there was 14 percent left for the rest of the world and some 24 countries, as a result, got more than 50 percent reductions from what they had gotten in the previous year.

To explain this scale, again, it is $1.8 billion, and if you look at Yemen, it is $2 million.

The red portions of the chart, Mr. Chairman, shows where we were not able to fund at the 1986 level. It was an agonizing and a very difficult chore left to the administration in order to try to maintain a foreign policy—and if I were showing the economic and military together, they would be similar right here [indicating], only larger, and the same thing.

As we looked at our strategy in the Pacific basin, we were faced with the fact that the funds that we had left meant that we had to zero Korea out, that we could no longer offer her any military assistance, and we do not propose to do so in this budget, for 1988. Even in the Philippines, where we wanted to provide $100 million, we were only able to provide $50 million of military assistance.

Had we done more, given the earmarks that we had, we would have zeroed out the sub-Sahara or taken a lot from Central America.

But the decision was made to not have an interruption, as best we could, in our foreign policy and defense strategy, but to try to manage affairs as we came back to look for the 1987 supplemental and the 1988 program and to work with our friends and allies.

Turkey was earmarked at only $490 million; Greece at a lower number. But Spain, as the Under Secretary just mentioned, based on our last DECA, our last Defense and Economic Cooperation Agreement, here we had made a best-efforts commitment of $400 million. But we were only able to provide $105 million in this case.

Similarly, in Portugal it was less than $85 million and in Jordan, only some $35 to $40 million. The sub-Sahara was reduced significantly, particularly the access countries of Kenya, Somalia, and Sudan, where they had been receiving levels from us of up to $20 and $45 million 2 or 3 years ago. Now we are down to $7.5 million.

We were able largely to protect Central America at the 1986 level; but that was not enough. In fact, all of the Western Hemisphere took a 40-percent cut from what the President had requested.

As a result of all of this, then, we are left with the position where we are now in a supplemental before the Congress to repair and to return, not to increases, we maintain, but to a more reasonable level, with a supplemental of $50 million for the Philippines, some $200 million for Spain, $125 million for Turkey, and some $30 or $40 million for Portugal, $10 million for Morocco, and only $3 million for each of these access countries, which are in the Horn of Africa, where we need to have that access for deployments and availability.

The budget then builds to a more reasonable level within each one of those countries, going back to the 1986 level—back to the 1986 level—going back to that portion of the entire Federal budget that has been traditional.

As you know, we cannot talk about our strategy without discussing a country, and I want to pick one. It will be Turkey (chart 7).

I am not in any way avoiding Greece nor do I want to denigrate it or put it into second place. But Turkey is always one of those countries of which we need to be mindful, where it has 1,000 miles of northern border with the Soviet Union, where Turkey has very unfriendly and unkind neighbors all around, with all kinds of threats. You can see, too, our concern for the Mediterranean and the Dardanelles.

But the point is that there is growing obsolescence in the Turkish forces, a country where we have so many installations and they are so important to us—intelligence installations, seismographic installations, radar, et cetera—so that we must do all that we can to begin to modernize Turkey. At the $490 million level we are stuck with no new modernization programs.

This chart (chart 8) Mr. Chairman, begins to look at it in a different way. In the yellow is that portion of the entire military aid that has been earmarked for Egypt and Israel traditionally. In the blue is NATO, how it grew, and then how it was compressed, rapidly and sharply. And the American republics, and how that was compressed somewhat. But look at East Asia and the Pacific, where we have a very thin line here [indicating]; and, of course, these are countries such as Pakistan and Jordan.

The point that we wish to make on this chart is when we were reduced as we were in 1987, it threw things remarkably out of kilter. It was a compression. It was an agonizing problem to deal with. Our friends, we think, are still with us, but we want to correct the problems caused by those cuts.

This part here [indicating] represents some $400 million for the supplemental for military assistance, and then, over here, this part [indicating], from 1987 to 1988, is some $800 million, to restore it to where it was before.

Mr. Chairman, in looking at these previous charts, I traveled to some 33 countries last year. My job is one where I travel more than I would like, but not as much as I should, and not all of those countries are to where we are giving foreign aid. I acknowledge that. But many of them were and many of them are on that map [indicating].

Even those to whom we do not give foreign aid are interested in this program because they themselves understand that security and the interests of the United States have a lot to do with this. And there is often such a discussion.

But military leaders and heads of state where we were have to begin to question the reliability of the United States, its commitments, and whether we ourselves will be able to maintain influence there and whether conflict will break out again if we are not able to provide them the minimum amount of security, both economic and military.

You have received a bill which has certain legislative proposals in it. We call them "initiatives." Chart 9—I have them broken into two categories, and I will talk of those where Defense has a particular interest. There are many others.

For the most part, I believe that they are noncontroversial. There are those that are needed for more effective management and to improve our defense relations. I must say that throughout the years, from 1981-85, in working with your committee, we were able to get important proposals forward, which were debated and finally signed on to. We didn't get everything that we wanted, but we did make improvements.

I will just briefly talk to them because I think that we and our staffs need to have more interface.

In the Philippines, there is an issue of being able to change their uncommitted credits of some $29 million to forgiven—forgiven principal and interest repayments. This would have a minimum impact on outlays and on the budget, because we are talking about repayments being spread over the next 12 years. They will not now spend this uncommitted balance. They have chosen not to because of their economic problems, but they need it. They need to have it available.

I think you are all aware of the NATO Southern Region Amendment, which was passed by Congress last year, largely sponsored by the Armed Services Committees. The idea here was to modernize wherever we could.

We would modernize by providing equipment. It is not new equipment. It is either excess or will become excess, and particularly Turkey, Greece, and Portugal really need anything that they can get. For example, F-4's, which are some 25 years old, replace 104's which are 35 years old in technology. Here we would like to exclude the military salaries for forgiven credits sales cases and training, where we had military involvement, and that was done by the Congress before, when you agreed for MAP—which is grant aid—that we should be able to waive those charges. We, quite frankly, forgot to do it for Egypt and Israel, and it becomes important. It becomes important because they also receive grant aid, and we can reduce the cost to them and get more defense for them.

Then we want to have the interest rates fixed at the time that the loans are drawn down. That makes sense, because if market interest rates go up and down, then interest charged on FMS loans should also be at a floating rate, rather than stuck at a higher rate, and many of them are stuck now at 11 percent, for example.

Right now, we would like to have relief from the penalty of 4 percent on loan arrearages. This is something the administration did a few years ago, in order to try to encourage countries to pay up earlier. It has not worked. If countries are having difficulty making payments, they are not going to do it just because of a 4-percent charge. The administration, our lawyers, tell us to seek relief from the Congress because we do not have the authority to retroactively waive collection of the 4 percent, and we would like to be able to provide that relief.

This initiative was encouraged by the Congress last year, for us to look at it, and we do indeed need direct cite for contracts. That just enables us when ordering items for countries that we must replace items with newer ones, similar to something like a missile, to avoid their having to pay the up-front costs when it is not justified.

This will not, as concerns the Defense Department, have any budgetary impact nor will it harm us, but it will help our countries and our friends.

Finally, we need some legislation from the Congress which will protect us in combating fraud and abuse. Wherever we finance commercial sales at this stage, we need more protection so that we can enforce the rules and so that we will not be brought before a court. For example, this law would ask that we have the protection so as to not finance the sale involving any company or any party that was in that company for 1 year after they have been convicted.

This one [indicating] (chart 10) is probably a bit more controversial, but I don't believe the first one is—war reserve stocks for allies such as Thailand. The committee and the staff was consulted before this was signed. It simply enables us to put over a 5-year period $50 million into Thailand, with Thailand promising to do the same. It will stay under our control. It will only be used in the case of an emergency, very clearly spelled out. And, more than that, it will add to our deterrence.

Of course, you know about the Pakistan waiver that must be extended, and Argentina and Brazil, and here again we have some debate among the lawyers as to whether we can legally provide IMET for Argentina and Brazil. The idea of providing IMET does not seem to be the issue, but whether we have the correct legal authority to do so. We would like to resolve this.

Then there is something in addition for safety of flight for Chile over and above what you provided the last time, and, finally, police training for democratic governments, which this administration believes in very strongly. It is our belief that we should be able to provide law enforcement training for countries like the Philippines and others, where they have a justice system but do not have adequate law enforcement capabilities.

This issue was largely debated a couple of years ago, when we were taking a look at terrorism. This committee came out favorably for Central America, but it did not extend itself to the rest.

I will be finished in a few minutes, Mr. Chairman.

Many of you have seen this chart (chart 11) before. This is scaled for Soviet aid. The green is economic and the red is military, and it reflects an average for Cuba, for example, of $5.8 billion of Soviet aid each year for the last 5 years. For Syria it is $2.4 billion; for Libya, it is $550 million. One can see that, unlike us, they put a lot of red on there, which is military assistance at very low rates, some of it grant, and almost always concessional, and is always delivered very rapidly. They don't have to wait for the long congressional period—which we are not raising as an issue; but they take equipment right out of stocks. They can equip a country with a wing of airplanes in 4 months, and it is only about 25 percent of the in-production.

The point here is that the Soviet Union has more advisors in Cuba than we have military advisors around the rest of the world. And Cuba has more military-related advisors in Nicaragua than we have all over the world.

You can see that in most cases where they have provided this aid, there has been trouble for the United States and the free world, and their interests. This is not in all places, but in almost all 11 countries that have signed up for friendship and cooperation agreements with the Soviets in the last 15 years, they have been involved in war. I might add that in none of those countries with which the United States has had a military relationship or has provided arms, has this led to war.

I want to compare these charts (chart 12) for you just briefly, Mr. Chairman.

They are scaled at the same level. In other words, the $5.8 billion for Cuba each year is a little larger than the total military and economic aid that the United States gives Israel and Egypt combined. But this is over here [indicating] and that is over there [indicating].

That is larger than for those two countries.

More than that, as you can see, when we provide aid to countries, if it is military aid, most of it shows up in Egypt and Israel, because of the peace process and the concern for the security of both of them, but also in southern NATO. Southern NATO is where a large portion of the military assistance goes.

If you exclude these countries [indicating], southern NATO and Egypt and Israel, the military assistance component for the entire rest of the world is 14 percent, and the rest of it is economic.

I think that this gets to the myth again that we are, in fact, militarizing our aid. In fact, in fiscal year 1987 it is less than 8 percent right here in Central America and the Caribbean.

I want to talk just briefly about our trend in arms sales, (chart 13), and I want not to be misunderstood as I look at this chart and try to make my points.

This shows, in blue and red, the combination of military sales, and we count these in billions of dollars over the years 1982 through 1986 and we record these dollar values when we make a sale. And we sell only for legitimate purposes, as you know. But when commercial deliveries are accounted for, the only way to know what has actually been sold is to know what the export license actually calls for. You can see that there has been a decline throughout this period.

The red has to do with big items, like aircraft or tank sales, and the blue has to do with logistic support training, some construction, technical modifications—the routine business, one might say.

When we do not fulfill a legitimate defense request of somebody who feels they must have that capability, we have, in fact, transferred the sale to another country and the jobs that go with it. We have transferred it to another country, and we have lost the associated influence and military relations that we have fought for and worked so hard to have all of these years.

This is my last chart (chart 14). Through this period of 1981 to 1985, we were able to work—it was before Gramm-Rudman—to reach the funding levels, agreed goals, improvements in our law, management improvements, planning, strategy, and so on.

Senator McConnell. Excuse me, but I cannot see your chart at all.

General Gast. I'm sorry. I believe I also handed out these charts to the Senators, but I will move out of the way. I apologize.

The point of this chart is that through the years, as we work with our military colleagues, and the Congress talks to a lot of the military people in those countries as they make trips or as they and heads of state come here, there has been a gradual agreement among countries as to the common interests that we have, those interests that we support and that they support. Within that period, and in the charts that I have shown you, there has been increased funding, agreed goals, improvements in the law, and many management improvements which the Congress either insisted upon or responded positively to what the President has submitted.

With the countries, we had planning and a strategic dialog, and we improved the quality of aid.

The relationship begins, as always, we believe, when we have a common interest and when we begin to have dialog with countries. Then sales come later. Sophisticated sales always come after that.

When we turn away from friends, such as we have in Jordan, where they are buying Soviet materials, or when we are unable to provide for legitimate levels for many countries, we are going to lose them. It is unquestionable we will lose that contact.

None of the countries where we have provided any substantial military equipment at all has ever attacked another nation. Not once has a war or a conflict been initiated where the United States had any kind of significant military arms transfer relationship.

Others cannot say that. In fact, there is no other country that can say that, certainly not the Soviet Union or many Western suppliers—largely because of the way that we work with countries, the confidence we build up. A lot of it has to do with the laws that the Congress has passed over the many years, such as the Arms Export Control Act. They know the penalty. We believe that we must continue with that.

Mr. McPherson has already said to you that 70 percent of the AID programs are spent here. I will say, with the exception of the Lavi program—and I am not debating Lavi right now, which is a directed offset program mandated by Congress, or established by Congress—virtually every dollar that is in the military account, that is provided by the Congress, is spent here in the United States. Many of these dollars return tax revenues to the U.S. Government, and the total FMS sales program has created or sustained about 375,000 jobs.

Thank you very much, Mr. Chairman.

[The prepared statement and charts of General Gast may be found in the appendix.]

The CHAIRMAN. Thank you very much, General Gast. As you have pointed out, we have copies of those charts with us and we appreciate getting them.

There is one point that you mentioned where you said there were more Cuban military advisors in Nicaragua than we have around the rest of the world. Is that what you said? Is that correct?

General GAST. Military-related, yes, sir.

The CHAIRMAN. But according to the figures that I have, unclassified figures, the Defense Department believes there are 2,500 military advisors in Nicaragua; that is, Cuban military advisors there.

General GAST. Sir, 3,000 is the number that I have.

The CHAIRMAN. Other estimates are substantially lower.

Now, don't we have a larger number than that of military people around the world?

General GAST. No, sir. We do not.

The law establishes that we may have no more than six in any given country, unless we get legislation, and there are only six or eight of those, where we have authorized that; or if we feel we need them there, then we can notify the Congress where we are asking for that.

That amounts to some 900 people around the world—900 total, military and civilian.

Many of these people are administrative people when we add them up that way, and some of them are not advisors, by any means.

Whenever we send someone overseas in a technical assistance field team, to help somebody absorb an aircraft, a tank, or any kind of weapon system, we add those up and add them to that because that cannot be covered under section 515.

There is a running total that is kept, and it goes up and down each month. We send people over as long as it takes to do the job.

We want to work our way out of a job. Whenever we go to Egypt or any other place and we send people over there, our objective is to train and to get out of the country and to get back here. It runs around 2,500.

The CHAIRMAN. The military assistance program that we have, compared to that of the Soviet Union—how would you compare them? You had some charts there, but I could not quite see the overall comparison.

General GAST. On the Soviet Union chart—and I should have explained that; I meant to—we show sales, some of which are made on a grant basis and most of which are made on a concessional basis. We did not show, of course, our sales which are cash, many of which go to NATO. We did not show the recent E-3 sales, which will show up.

Two or three years ago, before we began to have restrictions or a concern expressed here, the United States, as a legitimate—and I want to stress "legitimate"—supplier of defense requirements was first or second; it is now third and fourth in the Third World, with the Soviet Union and either France and/or England ahead of us in that regard, or other parts of the free world.

The **Chairman**. But if it comes to sales or assistance to Third World countries, what would be the weight there?

General **Gast**. I believe that the Soviets would certainly be ahead of us, probably, in that regard—certainly within the areas that they talked about.

We probably, in many of the Third World countries, may give more. In fact, if you look at Africa, which is a beautiful example, if one were to take a look at the historical chart of Africa and color-coded those red that were Eastern bloc-oriented, versus blue that were Western and/or United States—Western and/or United States—that map would have had a lot of red on it 7 or 8 years ago. There was a lot of stuff sold by the Soviet Union, in large amounts, and they broke them.

In Africa today, we do not sell large ticket items. We are not interested in that. Our programs are relatively small. They are in the area of civic action, coastal surveillance, to help them keep the Soviets from stealing their fish. So the nature of the assistance is far different in that regard.

The **Chairman**. Touching on the delicate question of Greece and Turkey, I believe you are proposing to change the 7-to-10 ratio of assistance which has been the case in the past. If that is changed, how would you compensate for that message to the Turks to show that we were serious that they should not be using American weapons in Cyprus?

General **Gast**. This came up in another panel last week. The question was phrased differently, but I will give essentially the same response.

In Cyprus, the Turks have had some equipment there for a long, long time which is very obsolete. In fact, they cannot keep it in their inventory. It is so different from anything else they have in their inventory.

We, through our assistance program, recognized that they needed to modernize tanks. So they took an old tank, the M-48, and upgraded it, and it's a reasonably good tank. It's not an M-60 tank, which is a later tank, but it is a very good tank, and it is certainly not the M-1.

The Turks decided that they needed to replace those old M-41's and M-47's down in Cyprus. They did not increase them. They replaced them.

I also went on to say that in my discussions with the Turks, the Turkish are very sympathetic and very concerned about the outlook of Congress toward them. They have seen many actions taken and do not want to be in that position.

I do not believe that the Turks in any way want to start a fight with Congress because they recognize that the aid that they receive has to be appropriated. But I think they would not add to it.

The CHAIRMAN. Let me be more specific, if I may. I think section 620 of the Foreign Assistance Act says, "U.S. assistance is intended solely for defensive purposes, including, when necessary, to enable the recipient country to fulfill its responsibilities as a member of NATO."

General GAST. Yes, sir.

The CHAIRMAN. Do you believe that these Turkish activities are consistent with existing American law?

General GAST. Well, the lawyers have looked at it and they say "Yes." The tanks are a 1-for-1 switchout. The Secretary, Mr. Weinberger, responded in the House to that question and said that we provided them for defensive purposes. If they were used for other than defensive purposes, they would be in violation of our law, as other countries have found out.

The CHAIRMAN. But they are being used in Cyprus and not for defense purposes.

General GAST. Well, sir, I think that the argument is that they are there as a replacement for those that they already had and that they are not looking for offensive use of those tanks or any other things there until a political settlement can be reached.

The CHAIRMAN. As you know, several of us on the committee have introduced legislation to try to refine that language.

General GAST. Yes, sir. I understand that.

The CHAIRMAN. Regarding the base rights that we have, what are the prospects of the United States providing increased levels of security to the base rights countries—Turkey, Greece, Spain, Portugal, and the Philippines—in order to maintain our rights there?

In other words, are these grants? Is this rent? How do you see that moving along?

General GAST. There is more of a concessional element within the entire bill this year, at the encouragement of Congress last year to do that.

I would make two comments.

First, I would like to restate again that it is our view that we are not increasing; we are trying to get back to a responsible level and a manageable level.

Second, I think the term "base rights" is a bit unfortunate and not totally descriptive of all the countries. In Turkey, even though we have major installations there, as I indicated, we are trying to modernize a country that has growing obsolescence and where it is questionable as to whether it will affect a very crucial part of the world, on the southern flank, to have an adequate deterrent force. I think one would say about the same about Greece. And in Spain, it has already been alluded to here with the DECA and whether we can work toward maintaining some kind of commitment.

The commitment, by the way, for 1988, which is the bill before you, for Spain, was $400 million by the administration, not the Congress, to be sure. But, even the bill, in 1988, is only $265 million instead of $400 million.

In other words, the President decided and the Secretary of State decided and the Secretary of Defense decided that we should only go back to the 1986 level of what we got in the request and that that could be justified. And Portugal, by the way, is base rights. Anyone who has flown to the Middle East or to Europe understands the importance of the Azores to our whole strategy. And certainly in the Philippines we are asking for help there for democracy and for economic recovery, but also because we have important bases there.

But the amount of money that goes into those countries this year has actually been reduced for what is so-called base rights. But it is very important, we believe, in the southern tier.

I did not show some of the charts, Mr. Chairman, that are in my testimony, which you have there, regional charts, and I would encourage you and your staff to look at them, where we point out the growing concern that we have in the Mediterranean littoral.

The CHAIRMAN. Thank you very much.

My time has expired.

I call now on the ranking minority member.

Senator HELMS. Thank you, Mr. Chairman. I apologize for being late. I was down on Pennsylvania Avenue, working on a few things.

I do have a few questions for Mr. McPherson, if I may.

Pete, Section 211 of the Anti-Apartheid Act prohibits, does it not, assistance to any group approving of "necklacing." Is that right?

Mr. MCPHERSON. That is my understanding.

Senator HELMS. That is your understanding.

My question is, Has work begun on the guidelines for this section?

Mr. MCPHERSON. I believe, Senator, that the State Department has put together general guidelines on this whole section, on the whole set of legislation. Yes.

Senator HELMS. So that has already been done?

Mr. MCPHERSON. I believe so. But it is under the purview of the State Department, generally, and I am not at the point where I can tell you precisely where it is.

Senator HELMS. Would you see that the committee gets a copy of that?

Mr. MCPHERSON. I most certainly will.

[The information referred to follows:]

ASSISTANCE TO GROUPS APPROVING "NECKLACING"

Guidelines established to implement this section of the Comprehensive Anti-Apartheid Act of 1986 have our AID Mission in South Africa as well as our Embassy there increasing efforts to be as familiar as possible with the groups to which assistance is provided. In the event it were discovered that a particular group we are assisting contained in its ranks an individual who has been found to engage in gross violation of internationally recognized human rights we would offer the assisted group the choice of either terminating its relationship with the individual involved or terminating the grant with AID.

Senator HELMS. Now, section 103(b)(4)(B) provides for direct financial assistance to the families of those killed by necklacing. Do you understand that the guidelines for that are in the works?

Mr. MCPHERSON. I would assume so. But I am not in a position to say precisely, Senator.

Senator HELMS. Again, I, in particular, and I am sure other members of the committee would appreciate having a copy of that.

Mr. MCPHERSON. Yes, sir.

[The information referred to follows:]

ASSISTANCE TO THE VICTIMS OF VIOLENCE

To implement this section of the Comprehensive Anti-Apartheid Act of 1986 we have established a policy under which such assistance will be provided on a nationwide basis by reputable humanitarian organizations which are able to operate in all communities in the Republic of South Africa and which are committed to helping individuals and families regardless of political or employment affiliations. Such organizations may include the South African Red Cross or the International Committee of the Red Cross.

Senator HELMS. Now, on February 17, I believe you announced that AID would be providing assistance for Mozambique.

Is that right?

Mr. MCPHERSON. A continuation of a program in connection with the drought that is going on there—yes, Senator.

Senator HELMS. So the answer is "Yes"?

Mr. MCPHERSON. The answer is "Yes."

Senator HELMS. I wonder if I might ask you to describe the approval process by which various administration officials approved this decision. Specifically, I want to know whether these officials, the President, his Chief of Staff, or other White House officials and the Secretary of State and his deputy, approved the action before or after your announcement? Or has it been approved by them at all?

Mr. MCPHERSON. The situation at this time is approximately 75,000 tons of food has been formally approved.

Senator HELMS. By whom?

Mr. MCPHERSON. By the interagency process, the so-called DCC. There is another 75,000 tons which is in the process of being approved, and it is my judgment that it will be approved.

At the time of the press conference when we talked about it, I suggested that it would be. But, in fact, in a formal sense at that time it was not fully approved. The last 75,000 tons, at this juncture, is not yet finally approved. It is my judgment that it will be, Senator.

Senator HELMS. Well, as a matter of fact—and I am not badgering you—the administration really has not even considered it. Isn't that correct?

Mr. MCPHERSON. No, that is not so, Senator.

Senator HELMS. Well, why do you suppose the White House is saying that that is the case?

Mr. MCPHERSON. I don't know who at the White House has said that. But the situation, Senator, is that the 150,000 tons has been before the interagency process—that is, the DCC, the food committee, composed of Agriculture, Treasury, OMB, AID, and State. That DCC has had for several days, for 3 weeks, maybe—don't hold me to a time period, but for several days—the proposals and a substantial portion of that has been formally agreed to.

Senator HELMS. But the fact remains that you just said that it had not at that time, to your knowledge, been approved.

Mr. MCPHERSON. Not all of it had at that time been formally approved. That is correct, Senator.

Senator HELMS. Well, let me say to you in all friendliness, don't you believe that enough cases of unauthorized foreign policy actions have been taking place without AID getting into that business?

Mr. McPHERSON. Senator, I belive that it is very important, and the President has made very clear to me a couple of different times, several times, that it is important for the United States to respond to starving people, to very hungry people. And I think you have supported that, too, generally, Senator.

He has said that a hungry child knows no politics. I think we have to stick to that.

It is on that basis that I firmly believe that people who are under threat of starvation throughout Mozambique should have the help that we can deliver. We will be very careful that it is done on a very apolitical basis, and that it is food not for soldiers, which is something that we have always been very careful to avoid, but that it is food for people who are under threat of starvation.

There are about 3.5 million people that we feel need substantial food, whom we can reach relatively easily. There is another group of people in areas where there is substantial conflict that are tougher to get to, Senator. I have had a team out there looking at that.

We expect and will try to get as much food to those people as we can.

Senator HELMS. Well, I certainly do not fault that, just so long as it is not taken over by the military, as in the case of Ethiopia and various other places.

Mr. McPHERSON. We are very careful about that.

Senator HELMS. Now, from what I understand of your public comments, no effort has been made to enlist the assistance of RENAMO officials in the distribution of food to those in areas affected by the war or who are living in RENAMO-controlled areas of Mozambique.

Now, have you, in fact, made attempts to ensure that RENAMO areas are recipients of American food aid?

Mr. McPHERSON. I have and that is my very firm intention, to do that in every practical way that I can.

In fact, at that press conference that you mentioned, which was quoted in the Post a few days ago, I called for the U.N. to appoint a person to be a coordinator of this effort, with one of the particular needs being that that party would be in a better position than anyone to talk with anyone who would be interested in getting food to them.

That person has indeed, since that time, been appointed. The head of the UNDP, Bill Draper, called me a few days ago, saying the Secretary General had done so.

That will be the party that I would see as being very helpful in getting food into areas where there is substantial conflict.

In fact, let me say this, Senator.

I am anxious to be able to get food to areas where there is substantial RENAMO activity. It is absolutely my intention to do that. I see this U.N. process as being one of the ways that we can do that because it is there that we are not getting enough food to them. As this process goes on in the weeks ahead, if you or other Senators have some concerns, ideas, or thoughts on how to get food there—

not to soldiers, again—just as in the other parts of the country, I am anxious to facilitate that.

Senator HELMS. Well, you and I have talked enough about getting food to people who are stricken by famine. So we both agree on that.

In my capacity with the Agriculture Committee, I have done everything I can in that regard. I would hate to see us ignore this section of that suffering country or appear to be doing so.

But, in any case, because of my interest in this subject, I wrote to Prof. Louis B. Serapio, who is RENAMO's representative here in Washington, as you know, and I asked him if he would be willing to work with United States officials to get proper food aid to those in the areas of Mozambique controlled by RENAMO.

Let me share with you his response, and I will give you the total letter, which is an affirmative response to great willingness to assist in the safe transportation of food to the starving in the areas of Mozambique.

I see that my time is almost up, so I will just limit myself to a couple of sentences.

He said, "In the past, I have made numerous telephone calls and written letters to initiate a dialog with the State Department, but I have never had a reply. In fact, a senior State Department official told us last month, our policy is very clear. We don't speak to you. Nevertheless, RENAMO made a public statement 3 weeks ago, stating our willingness to cooperate and assist in any relief outreaches to the affected areas. Again, we received no response from AID."

Then, he says, "It is our experience that Mr. McPherson has dealt exclusively with the Marxist regime in Maputo." Do you have any comment on that?

Mr. MCPHERSON. It is true that the executive branch position is to deal with the Government of Mozambique. It is true, further, that the position is not to have relations with the RENAMO representatives. That is a decision that is not mine, though I do feel that what we are now doing is appropriate.

Senator HELMS. Well, it seems passing strange to me that this administration—and I don't know who you mean by "this administration"—would prefer to deal with a bunch of Communists instead of people who are anti-Communist.

I see that my time is up, Mr. Chairman. I will continue in the second round.

The CHAIRMAN. Thank you, Senator.

Senator Simon.

Senator SIMON. Thank you, Mr. Chairman.

First, just a comment, General Gast, to follow up on the chairman's question on the Turkish situation.

I have the impression that the military has a tilt toward Turkey in this situation simply because of the strategic importance of Turkey. And I understand that.

But, because of that tilt, we are not getting the situation resolved between Turkey and Greece, and the ultimate result is harm to our military posture and, obviously, continued friction between Turkey and Greece.

I just pass that along as one observer's and visitor's impression of that part of the world. If the military can join—and my friend, Ed Derwinski and I have talked about this on several occasions—a little more effectively with the State Department in trying to get the Cyprus situation, in particular, resolved, I think it would be in everyone's best interest.

Mr. McPherson, first of all, in partial response—and I regret that my colleague from North Carolina has just left—to Senator Helms, I think it should be pointed out that General Gast made a very good point: That the policies you have followed have resulted in that map of Africa looking a little less red as the years go by. It seems to me that this is in Africa's interest, it is in our interest, it is in everyone's interest.

I don't know how much time I will have, but I want to get into Africa, water, and population with you, Mr. McPherson.

But first, according to the figures that I have been given, or that you gave us, as of September 30, 1986, we have in the development assistance pipeline almost $4 billion, and a little over $4 billion in the ESF pipeline.

Would those figures, would that still be approximately the same?

Mr. McPherson. What was the date of your figures?

Senator Simon. September 30, 1986, at the end of the fiscal year.

Mr. McPherson. At the end of the fiscal year, the pipeline figures tend to be the highest. As the year goes on, they lower a bit. The pipeline is in the billions in Egypt. Last year, the Egypt ESF pipeline was over $2 billion. That figure was extra high near the end of the year because, frankly, in our discussions on policy dialog, we had trouble obligating the money early in the year in the manner that we would have liked to.

But, still, there is a major pipeline in each account.

Senator Simon. Aren't those figures substantially higher than they were, say, 1 year ago, 2 years ago, or 3 years ago?

Mr. McPherson. The Egypt pipeline is a little higher. It had been going down for a few years. I had been able to push it down. But then, we give much less cash assistance to Egypt as opposed to projected assistance and this slows down the obligation and disbursement.

I feel strongly that we should not give cash to Egypt outside the context of movement on economic reform.

Our pipeline figures have always been large. Over the years, they have gone down a bit. Overall, they have gone up and down.

What we do, as you know, is if we are going to build—and this is only one example—a road, or a university, we often put up a substantial portion of the money up front, and then it disburses.

So, I think for stability and certainty for programmatic concerns, it is almost impossible to finance things year by year.

Senator Simon. But there is no shift in policy that has said let's build up the pipeline?

Mr. McPherson. No, there is not. If anything, my ability to use De-ob/Re-ob authority—and this is something that I have pushed hard and worked hard on as you know—has allowed us to lower some pipelines that were not moving.

Senator Simon. Your proposals basically call for a major reorientation in sub-Saharan African policy.

Mr. McPherson. Well, they call not so much for a reorientation, Senator, in policy but a reorientation in management.

What I have proposed, as you know, is this Development Fund for Africa which will allow us not to be subject to all of the functional account constraints, but will allow us to move money around a little bit easier, to respond to the situation as it develops.

We have to present our proposals to you over a year before we are going to spend the money, and to not have flexibility at the time of the expenditure seems to me to be not managerially sound.

Indeed, ideas with more flexibility came out of hearings that Senator Kassebaum had here, bills from Senators Kennedy and Kasten. You have been interested in this area. This whole area of freeing us up has great appeal. But it is not my intention in any dramatic way to change what we have been doing.

You commented a moment ago about the map. We have had a real impact on economic policies in Africa. We have had a big impact on food production. I think you have seen the chart that I have.

I want to continue to work hard on agriculture. I would expect to put roughly the same amount of money into family planning and into health in Africa, as I have done this last year and as I am doing this year. I would expect approximately the same proportions in fiscal 1988.

I think you have an environmental strategy paper on Africa that we have handed out this morning.

This is a culmination, really, of what we have been doing and a kind of refinement in some ways.

So I do not see it as a major policy change. I see it as a management change.

Senator Simon. Structurally, within your office, how do you handle the whole water policy? I think I have talked to you about this. I have the feeling that one of these days we are going to get a breakthrough. Whether it is next year, or 5 years from now, or 10 years from now, or 50 years from now, at some point we are going to find an inexpensive way of converting salt water to fresh water.

Mr. McPherson. That will be fabulous. The Middle East would be a different place.

Senator Simon. Yes. Dramatically different.

What are we doing to provide leadership in that area?

Mr. McPherson. We, at AID, are not putting money into that research. There are a number of other institutions, private and public, that are.

It is my impression that that is a very large expenditure research item indeed.

Of course, it can be done, now, taking the salt out. It is just too expensive. The question is the economies involved in doing it.

It has been my impression, though I have not looked at it carefully for a couple of years, that as of that time, there was a lot of private and public activity, and it was a big dollar item.

If you would like, I would be happy to have us look at that again.

Senator Simon. I would appreciate that. I would also appreciate your looking at possible multilateral approaches.

Mr. McPherson. OK.

Senator SIMON. The Saudis obviously have been doing research; the Israelis have been doing research.

Mr. MCPHERSON. Yes, the Israelis particularly I think have done a lot of the work here.

Senator SIMON. That is correct.

Working with them, for example, can we help in Mauritania or in some place where the needs are desperate? Can we see if we can't come up with some answers. It just seems to me that, long term, that is one of the things that we ought to be working on.

Mr. MCPHERSON. We often talk about the religious differences in the Middle East and the battles there. But, of course, in some ways certainly potentially as big, is the issue over water.

[The information referred to follows:]

AID'S WATER POLICY

AID is not currently supporting any major research on desalination technologies. In the past, we provided $20 million to support a joint United States-Israeli research project which included the construction of a prototype desalination plant. In addition, assistance has been provided for the installation of a desalination facility in Cape Verde.

We understand that the Office of Technology Assessment is now conducting an informal study examining the research literature on desalination as well as reviewing past and present U.S. Government activities in this area. The results of this review will be of interest to AID and should help in formulating future activities in this area.

On the whole, multilateral institution investment in the area of desalination research has been displaced by commercial investments. The potential profitability of a low-cost seawater conversion process is sizable enough to warrant continued private sector research in this area. However, over the past 10 years, distillation processes have been refined to the point where further improvements and greater cost-effectiveness could well be relatively marginal.

Senator SIMON. In the population area, you mentioned family planning and your hope to keep a fairly constant budget figure. I recognize, as you do, the sensitivity of expenditures in this area.

I see that my time is just about to draw to a close. I would simply say that it does seem to me, as you look at Africa, for example, as you look at Asia, that sensible expenditures in this area really do make sense.

I would just lobby you in that behalf.

Mr. MCPHERSON. I believe that, Senator.

Basically, I am prepared to spend all the money in family planning in Africa that can be sensibly spent. That has been my approach for several years. The levels have gone up substantially from the early 1980's.

There is clearly a movement of interest and pattern here. We will continue to work at that.

Senator SIMON. Good. I thank all three witnesses today.

Mr. MCPHERSON. In that same light, I have just reaffirmed a commitment for a major family planning activity in Nigeria. There was a bit of discussion within the agency as to whether or not we would do that. We are committed to doing that.

Senator SIMON. Good.

Thank you.

The CHAIRMAN. Thank you very much.

Senator Murkowski.

Senator MURKOWSKI. Thank you, Mr. Chairman.

I have had a concern for some time about the manner in which we define our assistance in the budgetary process. I notice at this year's hearing there is more of a response to the realization that a portion of our assistance to those countries with whom we have a relationship involving basing of military personnel and equipment is in return for the rights to maintain our bases there.

I am wondering why we continue this charade, which is what it really is, instead of looking into the merits of negotiating leases up front, having them stand on their own, as opposed to mixing them with our assistance. I think right now we have Greece, Morocco, Spain, Panama, the Philippines, Portugal, and Turkey. We are not separating the consideration for placing our bases there from the actual assistance itself. Are we? I would direct that question to the panel.

General GAST. Sir, I am not sure that you were here when I attempted to address that, at least partially, earlier.

Unquestionably, in some cases, because of the strategy within the alliance; and the force goals that are agreed upon among the members of the alliance, it is felt that the United States should have the right or the ability to either maintain forces in southern NATO—and that is what we are speaking of—or to rapidly deploy them. It turns out that in almost all of those countries, where we are speaking of that, we do not have the same agreements that we do with the richer nations in the alliance, that is to say, Germany, England, and others, where we do not provide assistance or where assistance is not required.

It also turns out that in each one of those four countries—and we can carry that on to the Philippines, which is a final base their economies are relatively weak and their force modernization goals and their contributions to the alliance have fallen well behind the rest. The importance of where they are, in the Mediterranean littoral as well as the southern flank, has encouraged the administration to ask for the support of the Congress to do two things.

One is to provide the economic assistance and the military assistance—and I am speaking of ESF—to enable them to improve their economies for security; but also to improve force modernization, so that it can make a contribution.

Senator MURKOWSKI. I concede both those points, General.

General GAST. And then, finally, they need the rent.

Senator MURKOWSKI. I am interested in the psychology of why we pursue this charade by including consideration for the bases in our assistance, our overall assistance. Why don't we separate them? That is my question to you.

General GAST. Well, I don't know if the Congress has ever seriously considered doing that.

Senator MURKOWSKI. Well, it has been discussed in this committee previously.

Wouldn't it make your job a lot easier if we knew what we were going to have to pay for the bases from the standpoint of a businesslike lease, and the foreign assistance budget were on its own and would stand apart from this consideration?

General GAST. I am not sure that it would be manageable, sir, within the 150 account, to have yet a separate category of friends and allies, to where the administration, in working with a country, and Congress could in any way commit itself to a certain level or a lease level.

Senator **Murkowski**. Well, let's take a look at Spain, for example.

We are in for a $200 million supplemental.

General **Gast**. Right, sir.

Senator **Murkowski**. Oftentimes, one can read supplementals to simply mean going back and getting what you didn't get out of the appropriations process.

General **Gast**. Part of it.

Senator **Murkowski**. In this regard, I think what we have is $200 million for Spain and another $261 million for military assistance elsewhere, which is a grant.

So, your fiscal year 1987 supplemental request is about $461 million for those two items, and that is my very point. I assume that the $200 million is because Spain was unhappy with the cuts in the 1987 aid, compared to 1986. So, the administration bases its justification for another $200 million on the impact of cuts on negotiations because we feel our bases are somewhat threatened there.

Is that reasonably accurate?

General **Gast**. Sir, what happened last year was that appropriated dollars, compared to 1986, were $800 million less for military assistance. The Congress earmarked all but 14 percent of that. Spain was not one of those that was earmarked. Korea had to be zeroed out, and Oman. And, instead of the $400 million, where we had made our best efforts pledge under the Defense Economic Cooperation Act, we could only provide $105 million.

Well, we realized that that created tremendous budgetary problems for Spain. We did not ask for the balance. It is $200 million, and that is $200 million of the $458 or $460 million, of which $125 million is Turkey and $30 million Portugal and $50 million for the Philippines.

Senator **Murkowski**. Well, I am not going to continue the line of questioning to ask you to justify the dollar amounts. I am more concerned with the basic theory of whether these are base-rights rental fees or foreign aid. I have had conversations with various people in the administration concerning this.

I would request, Mr. Chairman, since this seems to come up every year, that the committee have a little informal review material on the merits of separating the consideration for bases from the issue of aid itself.

It is very difficult to follow. We attempt to make the justification on the basis of assistance, when, in reality, the figures that come before us are massaged—out of necessity, because that is the way the system is structured—to take care of delicate negotiations on the continuance of our bases.

I think it leaves us in a void, if you will, in our oversight capacity because we do not, nor should we necessarily, have the nuances associated with your negotiations with these countries over what it takes to continue our bases there.

It makes this process, particularly when we look at $200 million for Spain or another $461 million in the supplemental request, kind of meaningless. It is there. You need it, obviously. You need it because you didn't get it last time. It was cut. And we are going to cut more this year.

Are you going to come in with a larger supplemental next year?

Mr. McPherson. Senator, I would comment not on the whole process but on an example.

In the Philippines, I think it has been good for this distinction not to be complete because there, we, at AID, anyway, have argued, and others have accepted this position, that it was important to be able to use that money for assistance, for developmental purposes.

Senator Murkowski. Yes. But we have given them more assistance, and appropriately so.

Mr. McPherson. That is true. But I am saying that the amount which is often associated with the bases per se we have tried to use for developmental or economic reform purposes as well.

I take your point. I am just suggesting that there are some countries where the lack of an absolutely clear distinction has, I think, been helpful.

Senator Murkowski. Well, I think we could argue it the other way as well.

I see that my time is up, gentlemen.

I would like to have you provide for the committee an analysis of the merits of the base negotiations payments standing on their own as opposed to being a part of the foreign assistance process.

I would also like to have some information from you relative to the accumulated debt that is presently attributed to each of the recipients of our aid, and a comparison of what their annual payback is in relationship to the current request for funds for each country.

I think it will show us, Mr. Chairman, that in some cases we have countries that are basically receiving about as much in new aid as they have to pay back in old debts every year.

I think, Mr. Chairman, at some point in time we are going to have to face up to this and recognize that we are either going to have to give these countries grants or debt forgiveness. It seems to be an ongoing game, and few people want to spend the time to understand really what is happening.

In the case of some of these countries we are doing a disservice by increasing their indebtedness. I think it is contrary to the interests of our oversight efforts, Mr. Chairman.

So, I would like to have that question submitted as well so that this committee can look in depth at the accumulated debt of many of these countries.

I would also like an analysis of the justification for the rate structure. You have concessional and nonconcessional rates, and you have extended repayment up to 30 years, I believe. What is the justification for the different treatments?

Obviously, if you give concessional rates to one country, the other country will agree that they should have it, too. But that hardly reflects the reality of a program that I think, in both instances, with extended repayment and concessional rate structures, has really gotten out of your ability to manage—because how can you possibly handle the issue of justification?

I had an ambassador in my office last year who said that if his country did not get what they had requested in this regard, he would be recalled. It had nothing to do, really, with the question of whether the country needed it or not. The point is, once you provide some of these credits at a preferential or concessional rate, they all will "need" it.

Thank you, Mr. Chairman.

[The information referred to follows:]

INFORMATION RELATIVE TO DEBT AND PAYMENTS

The attached tables provide information on accumulation of dollar repayable debt and fiscal year 1988 projected dollar debt service repayments for countries for which DA and/or ESF funds have been requested for fiscal year 1988.

DOLLAR REPAYABLE DEBT OUTSTANDING DUE TO AID AS OF DECEMBER 31, 1986, DEBT SERVICE SCHEDULED FOR FISCAL YEAR 1988 AND RESPECTIVE COUNTRY REQUESTS FOR FISCAL YEAR 1988 FUNDS (DA+ESF)

[In millions of dollars]

Country	Dollar repayable debt outstanding, December 31, 1986	Dollar payable debt service	Fiscal year 1988 request for funds (DA+ESF)
Africa:			
Botswana	21.5	1.2	8.0
Burkina			1.0
Burundi			2.0
Cameroon	27.7	1.8	20.0
Cape Verde			1.0
CAR			2.0
Chad			10.0
Comoros			.7
Congo			.5
Djibouti			3.0
Equatorial Guinea			.5
Gambia			3.0
Ghana	95.9	5.8	2.0
Guinea	4.8	.3	6.5
Guinea-Bissau			2.0
Kenya	101.4	4.4	35.0
Lesotho			10.0
Liberia	94.0	5.9	30.0
Madagascar	5.5	.3	4.0
Malawi	29.9	1.8	10.0
Mali	5.1	.3	8.0
Mauritania			3.0
Mauritius			1.5
Mozambique			10.0
Niger	2.8	.2	16.0
Rwanda			6.0
Sao Tome			.3
Senegal	0.2		32.0
Seychelles			3.0
Sierra Leone			1.3
Somalia	11.9	.6	38.0
Sudan	11.0	.6	36.0
Swaziland	10.6	.0	6.5
Tanzania	63.6	3.1	4.0
Togo			3.0
Uganda	9.1	.7	7.0
Zaire	137.2	9.9	33.0
Zambia	153.0	4.0	15.0
Asia/Near East:			
Afghanistan	69.2	4.0	30.0
Bangladesh	303.7	8.9	60.0
Burma	1.6		8.0
Cambodia			5.0

DOLLAR REPAYABLE DEBT OUTSTANDING DUE TO AID AS OF DECEMBER 31, 1986, DEBT SERVICE SCHEDULED FOR FISCAL YEAR 1988 AND RESPECTIVE COUNTRY REQUESTS FOR FISCAL YEAR 1988 FUNDS (DA+ESF)—Continued

[In millions of dollars]

Country	Dollar repayable debt outstanding, December 31, 1986	Dollar payable debt service	Fiscal year 1988 request for funds (DA+ESF)
Asia/Near East—Continued			
Cyprus			10.0
Egypt	2,514.0	89.2	815.0
Fiji			1.5
India	2,365.5	140.4	50.0
Indonesia	769.2	36.8	45.0
Ireland			35.0
Israel	1,274.1	40.9	1,200.0
Jordan	220.1	7.5	18.0
Lebanon			.3
Morocco	141.5	10.3	35.0
Nepal	.1		13.0
Oman	31.5	2.1	20.0
Pakistan	1,649.0	91.8	300.0
Philippines	298.5	13.1	137.0
Portugal	151.4	61.0	80.0
Spain			12.0
Sri Lanka	249.3	7.1	16.8
Thailand	61.5	4.0	21.0
Tunisia	151.1	8.2	20.0
Turkey	1,325.2	131.4	125.0
Yemen	6.3	.2	22.0
LAC Region:			
Belize	19.3	.4	9.3
Bolivia	266.0	14.0	52.6
Costa Rica	309.4	9.0	102.9
Dominican Republic	296.0	11.8	55.0
Ecuador	90.2	4.6	34.0
El Salvador	257.7	7.2	275.6
Guatemala	148.2	5.9	113.2
Haiti	15.2	.7	62.0
Honduras	256.9	8.1	140.4
Jamaica	387.6	12.8	53.6
Panama	178.5	10.9	29.3
Peru	316.8	14.3	24.2

The CHAIRMAN. Thank you, Senator Murkowski.

I would interrupt this hearing at this point to say that we now have a quorum and there are some votes coming up before the committee, so that I would think it would be appropriate to have a short business meeting.

[Whereupon, at 11:35 o'clock, a.m., the committee proceeded with a business meeting.]

[Whereupon, at 11:45 o'clock, a.m., the committee resumed its hearing.]

The CHAIRMAN. Senator Murkowski was the last questioner, so now Senator Sarbanes, you are next.

Senator SARBANES. Thank you, but I will defer to Senator Sanford, who has been here longer than I.

The CHAIRMAN. Senator Sanford.

Senator SANFORD. I think I will confine my limited time to Central America, if I may.

I notice that when the lights went off, the timer didn't go off, so I understand the importance of the timer. It stays on all the time. [General laughter.]

General, I was interested in the chart showing the relative contributions and strength of the Soviet Union, and I noticed figures in some places, but no figure on Nicaragua.

Do you have a fairly good idea of the extent of the military assistance in dollars?

General GAST. Senator, if I give you a number, it probably would not be precise. I think in looking at it, you can see that it is of considerable size. But I do not have those readily, though I can provide them for you.

I can say that they are constant, and, if anything, increasing. But I do not have the dollar value at this time.

Senator SANFORD. Do you think that we have reliable figures on the amount of military aid, the amount of economic aid, the number of Soviet nationals, the number of Cuban nationals in Nicaragua?

General GAST. It is the best estimate that the intelligence agencies are able to provide. I believe that it is reasonably accurate, sir.

Senator SANFORD. Do we know what they are doing?

General GAST. I think that they are working either hands-on, directly, as military advisors to the Nicaraguans, or they are working in militarily related areas in support of the military down there.

Senator SANFORD. I think it would be helpful to have an estimate.

General GAST. We can do that, though I think it probably will be on a classified basis.

Senator SANFORD. To the extent that it is available, we would appreciate it. It is not all that essential, but is of some interest.

General GAST. It is important, and I would be delighted to provide it to you.

[The information referred to follows:]

The amount of Soviet/East European/Cuban military assistance provided to Nicaragua since 1980 has been $1.885 billion. This includes $370 million in 1984, $280 million in 1985, $600 million in 1986, and $75 million in 1987 (as of March 1).

There are currently more than 100 Soviet/East European military and intelligence advisors, and about 2,000 to 2,500 Cuban military/security-related advisors in Nicaragua.

Senator SANFORD. Of greater interest to me is the work that Mr. McPherson now will be doing in those countries and in that section of the world. We have a proposal in for a special appropriation of $300 million.

Would you administer that, or most of it?

Mr. MCPHERSON. All of it. Yes, sir.

Senator SANFORD. What does that compare to in the total that is going now for economic nonmilitary assistance at those four countries?

Mr. MCPHERSON. It is about $400 million ESF, another $160 million or so for development assistance.

Senator SANFORD. So this would be 75 percent of what is going there now?

Mr. MCPHERSON. Of the ESF totals, that is correct.

The Kissinger Commission proposed a plan of economic assistance and military assistance. The concrete proposals were as to the economic assistance, and that was for a period of 5 years.

As of now, without the $300 million, we are about $1 billion behind the Kissinger plan proposal.

Senator **SANFORD**. You are asking for 10 percent here and 4 percent there and other such figures to bolster your programs around the world, and here you have a 75-percent increase all of a sudden. What kind of special goals do you have? How are you going to spend it? How are you going to make it amount to something?

Mr. **MCPHERSON**. We had asked, and, frankly, almost received $300 million at the end of the last fiscal year. There was a lot of discussion about that. As it worked out, the bill to do so just didn't get to the floor in time, or did not get passed before the fiscal year was up.

That was to be out of fiscal year 1986 programs. So now we have come forward with a program and we have talked of accounts from which this money could come. We think of it as a very serious effort.

Now, the reason for this is because, while our program in Central America has achieved economically and in other ways some very important things—economic stabilization, the beginnings of some growth, democracy and human rights, so on and so forth—we think it is clear that we are a little behind in some of those goals, such as in growth, and we believe the additional money is necessary to make up for it.

I might point out also that coffee is the biggest single export earner of the region. Coffee prices last year were over $2 a pound, and the latest prices are something in the range of $1.05 a pound. In other words, there has been a significant drop in some of the traditional sources of earnings for these countries.

Hence, we believe that today and now it is important for us to carry through.

Central America is probably the best example of a place, or certainly one of the better examples of a place where the military and economic assistance fit in together. We believe that we have to make this economic progress to make the whole thing function.

Senator **SANFORD**. Do you have in writing your proposal, your plan, of how you are going to spend the $300 million?

Mr. **MCPHERSON**. Yes. We have some concrete ideas and we will be happy to get them to you, such as country allocations and so forth.

Senator **SANFORD**. And how it will be spent and what the goals are for spending it?

Mr. **MCPHERSON**. We would be happy to supply that.

[The information referred to appears in the appendix.]

Senator **SANFORD**. I have heard it said that no developing country ever rose to economic security or independence purely on agricultural products.

Do you think that is true?

Mr. **MCPHERSON**. Well, I would say that you generally need a balance of both agricultural growth and nonagricultural growth. I strongly disagree with the theories that were around in the sixties and the fifties, the theories on which India, for example, thought that they could produce an industrial revolution primarily by investing in industry. It was a big flop, frankly.

Senator **Sanford**. It seems to me that you have to build on what you have, and where you have an agricultural economy, you have to build on that.

Mr. **McPherson**. Absolutely.

Senator **Sanford**. But the question remains, will that ultimately do the job?

Mr. **McPherson**. I don't think it is enough in itself. I think that such as in Central America, it is important for places like Costa Rica to have put into place policies which will encourage nontraditional exports, much of it assembly manufacturing, and so forth.

At the same time, I think that you need to increase agricultural production, and when you do, when the agricultural community produces some surplus, usually there is some little cottage industry that creeps up and participates in the whole.

Perhaps you have met Mr. John Muller, of the International Food Policy Institute here in town. He has produced a very interesting paper recently on the role of agricultural production, rural try and development, and industrial production.

Senator **Sanford**. I have been very much impressed with your people in Central America, but I wonder if we are looking at the long enough term, at how we can move foward from what has been and is now an agricultural economy.

Mr. **McPherson**. A figure that I think would be interesting for you, Senator, is for the last 3 years—and I think we have had a major contribution to this, our efforts plus those of the CBI—for the last 3 years, nontraditional exports from Central America have grown 15 percent a year—nontraditional exports to outside the region. That is 15 percent a year. We figure this year they will be at 26 percent of the total exports.

Now, what is happening in Central America is we are fundamentally beginning the restructuring of those economies. They are always going to export, one presumes, coffee, bananas, and other things. But, we are beginning to get the employment and the production more broadly based.

A 15-percent-a-year increase for 3 years in a row is a pretty heavy increase.

Senator **Sanford**. That still includes a great many agricultural products, though, such as flowers and the like.

Mr. **McPherson**. Flowers, pineapple, and so forth. But it is nontraditional. It is very broadly based.

The only way I feel we are going to be able to get these economies together in a sustained way that really deals with the economic kinds of questions, is to have that broadbased economic growth.

Senator **Sanford**. Thank you very much.

The **Chairman**. Thank you.

Senator Kassebaum.

Senator **Kassebaum**. Mr. Chairman, Senator Evans has been waiting for a long time, and I would be happy to follow him.

The **Chairman**. Senator Evans.

Senator **Evans**. Thank you, Mr. Chairman.

First, I would ask on behalf of Senator McConnell, that he has indicated he has written questions which he would like to submit for the record.

The **Chairman**. The record will be kept open until the end of the day and all members may submit questions in writing.

Senator **Evans**. Let me turn to your written statement, Mr. McPherson. I have several questions.

On page 3, you mention, "With our assistance, many countries, particularly in East Asia, Southeast Asia, and Latin America, previously classified as 'less developed' are now 'newly industrialized' and are in a position to help other countries."

What has been the record in the last several years of their willingness, once in a position, to actually assume that responsibility and to advance or expand their aid to less fortunate countries?

Mr. **McPherson**. Well, there has been some, through an organization, for example, called IFAD, the International Fund for Agricultural Development. Some of these newly industrialized countries are putting in some money and some effort. During the famine, there was some effort from some of these countries.

I would say, however, that their total contribution to date is not large, and I think it is something that we need to talk about and work at. Just as these newly industrialized countries or these rapidly developing countries need to take a greater burden in terms of places like GATT, they need to do a better job here, too. They are at the point of development where we can look to the Brazils and the Koreas to play more of a world role.

Senator **Evans**. As I am sure my colleague, Senator Sanford, across the table, will agree, both of us having come from higher education, usually if you get the new graduates started out by getting into the habit of contributing back to their institution, you can build over the years some very substantial contributions.

Would you care to present to the committee or would it be beyond what you think wise, a list of some of the countries and the potential that might be there for added help?

Mr. **McPherson**. Let me think about how to do that. But I would like perhaps to phrase it a little differently. I would like to think it through and get back to you with some ideas on this general problem. I think you have your finger on a good thing.

Maybe we should make a more systematic effort. The best form may be IFAD contributions because we are about ready to engage them in this effort.

Senator **Evans**. I would appreciate any efforts on that line.

Mr. **McPherson**. I like your analogy, however. I think it is a good one.

[The information referred to follows:]

Aid From Developing Countries

Aid from the better off developing countries to the poorer ones has been increasing. However, we do not have comprehensive statistics on this. Overall, contributions from developing countries have been identified in the range of around $300 million per year with about two-thirds of the funds provided for bilateral projects in poorer developing countries. We know that such aid is most often provided to neighboring developing countries. The NIC's increasingly are financing their exports to poorer countries. Technical assistance, however, is the major form of help. Various regional organizations are a major source of assistance among developing countries, e.g. the OAS, Colombo Plan in Asia, the Commonwealth Fund for Technical Cooperation.

In 1985, India provided about 80 million dollars' worth of bilateral aid and nearly $50 million in multilateral contributions. Korea also channels most of its aid ($50 million in 1985) through multilateral institutions. Brazil has been extending credits for many of its exports to developing countries. Other examples include training programs of Indonesia and assistance from Pakistan to Kenya to improve agriculture and industry.

A growing number of developing countries make multilateral contributions, especially to regional development banks and to IBRD—albeit to a lesser extent. India, for example, joined the African Development Fund in 1982 and the African Development Bank in 1983. Argentina, which has been a member of the African Development Fund since 1979, joined the AFDB in 1985. Indonesia and Pakistan have increased their payments to the Asian Development Bank.

Let me explain a bit more about IFAD. We have been examining ways in which IFAD's resource base might be strengthened by deriving some portion of IFAD's funding needs from nontraditional donor sources. The OPEC countries have been the traditional sources of such funds for IFAD, and we believe that they should continue to provide significant contributions. However, we recognize the current limitations to OPEC's ability to contribute and are looking to some of the more advanced developing countries to provide increased contributions to IFAD. The category III countries, the LDC's, provided $21.5 million to IFAD's first replenishment, although less than half of this amount was in convertible currencies.

We are initially encouraged by the receptiveness of the advanced developing countries to expanding their convertible currency contributions to IFAD. We will continue to look to the economically stronger developing countries to assist the poorer ones. In this connection, the United States also will continue to support UN efforts that facilitate technical cooperation and developing countries (TCDC).

Senator EVANS. I asked Secretary Shultz if he could, on behalf of the general programs of the State Department, get for me the effect over the last several years of inflation rates in countries in which we are located or are doing business and the currency exchange rate changes, which have had adverse effects on our ability to carry on our function.

Could you do the same thing for AID programs?

Mr. MCPHERSON. Sure.

Senator EVANS. It seems to me that we get lost, sometimes, in just looking at dollars and not realizing what those dollars will buy when we get to other countries. So, if you could do that, both to the degree that you can, on behalf of inflation changes in those countries and currency changes, we would appreciate it.

Mr. MCPHERSON. OK.

[The information referred to follows:]

THE EFFECTS OF OVERSEAS INFLATION AND EXCHANGE RATE FLUCTUATION ON AID OPERATIONS

It is difficult to provide precise data on the effects of overseas inflation and exchange rate fluctuations on AID's overseas operations. We can, however, outline past and anticipated trends over the period 1982–88. On average, the worldwide inflation rate impacting on our overseas budgets has been on the order of 7 percent per year, which equates to an increase in overseas costs for the 6-year period of roughly 50 percent. During this same period, AID's funding for its overseas operations (including the 1988 requested level) will have increased by about 21 percent.

This shortfall has been offset to some extent by exchange rate gains, particularly during the 1982–84 period. However, the dollar's decline, which began in the summer of 1985, has required some additional belt tightening. For example, we are currently facing a $3.5 million exchange rate loss in our operations in West Africa due to the decline of the dollar against the CFA, which is pegged to the French franc. We are hopeful that exchange rate gains against other currencies, particularly in South America, will reduce the impact of the loss against the CFA.

As a general rule, exchange rate fluctuations reflect, to some degree, inflation differentials. Consequently, an appreciating dollar ameliorates the impact of unbudgeted overseas price increases. This has been our experience in countries facing hyperinflation, where rapid price increases tend to be offset by currency gains. However, exchange fluctuations do not automatically adjust to account for changing inflation patterns. This is particularly true in countries whose currencies are pegged to another country. Under these circumstances, AID has had to absorb the additional costs.

Senator EVANS. Next, only semifacetiously, on pages 5 and 6 you talk about "the extensive macroeconomic policy dialog with the Costa Rican Government" and the benefits of that, and that what has happened to their economy as a result is the fiscal deficit was cut from 14.1 percent of GDP to 1.5 percent. You say that the GDP grew by 10.6 percent in 1983-85; inflation dropped from 108 percent to 11 percent; exports rose.

Would you have your consultation team work with OMB and the Congress to see if you can do that in this country as well as you have done it in some other places.

Mr. MCPHERSON. It really is impressive. There is no question about it. We often have these discussions about the exchange rate, and whether or not there should be devaluation.

I think that certainly one of the handful of key critical changes in Costa Rica was the dramatic devaluation of the exchange rate. It made it possible for Costa Rica to start exporting again.

Senator EVANS. On page 6, in talking about planting new coffee varieties, you say "to purchase inputs that combat the disease." That is an interesting term, but I am not quite sure what it means.

What do you mean when you say "to purchase inputs to combat disease"?

Mr. MCPHERSON. That meant sprays and that kind of thing to deal with the disease.

Senator EVANS. So, essentially, you meant insecticides?

Mr. MCPHERSON. Yes.

Senator EVANS. Now, for both you and General Gast, or for the whole panel, you mention on page 13, "Further exacerbating the budget reduction and imbalances in functional accounts are DA earmarks of over $170 million for country levels and programs on the one hand, and funding floor provisions * * * on the other." You say that due to these restrictions, you simply cannot carry on activities in other countries that you would like to.

If all of the earmarks and all funding floors were eliminated and the same amount of money was distributed to AID for its activities, would you have a different set of priorities than are now given to you by those artificial restraints?

Mr. MCPHERSON. We would have some different priorities.

Senator EVANS. It would be helpful for the record if you would like to describe some of those. Take the same amount of money and release all restraints. It would help us in knowing where the real pressure points are.

Mr. MCPHERSON. I would say two things, Senator.

One, in some places, for some of the earmarks we would give less money.

Senator EVANS. It would be helpful to know that.

Mr. MCPHERSON. Some of them we feel particularly strongly about and about others not so much. They are not huge dollars in those areas, but there are some.

I hear you saying that you want us to get this on paper, and that would be good.

Senator **Evans**. Yes.

Mr. **McPherson**. The inflexibility, for example, in the functional accounts was the whole thrust of Senator Kassebaum's hearings in this area.

As the budget gets tighter, what we are finding is that everybody wants to come in and earmark their program. That is a sort of human kind of reaction.

But what is happening is this. I found myself trying to work with a budget at the beginning of this year that had just been adopted by Congress, and I felt for a while that maybe we were almost in a gridlock. In some cases, it seemed as if there were potentially more earmarks than there was money.

Senator **Evans**. I think that over a several year period, we tend to do that. We tend to earmark first one section and then we add further earmarks, and then we want to spend some more money, but we don't have any more money, so we just say find a place for it by reshuffling things. And after we have done that for several years, I think we clearly have gotten away from a rational set of priorities and we need to back off and take another look.

If you could do that for AID, it would be helpful.

[The information referred to follows:]

Fiscal Year 1988 Administration Priorities

The fiscal year 1988 request is the best indicator of the administration's priorities, assuming no earmarks. While there are some disparities caused by funding shifts in development assistance (DA) and the economic support fund (ESF) between fiscal years 1987 and 1988, a look at the proportional allocation of total DA/ESF in each fiscal year provides a good indication of how the administration would allocate resources differently in the absence of congressional earmarks.

The administration has requested proportionately more for Africa and Latin America in its fiscal year 1988 request for the Functional Development Assistance Program (FDAP) and ESF than was budgeted in fiscal year 1987. Specifically, the administration allocated to the Africa region 11.4 percent of its total fiscal year 1988 FDAP/ESF request, compared to a 10.7-percent share for Africa in the fiscal year 1987 operating year budget. Similarly, 21 percent of the total fiscal year 1988 request would go to Latin America and the Caribbean, compared to 18.7 percent of the fiscal year 1987 budget.

Senator **Evans**. General, in the military assistance program and the ESF program combined, if all earmarks were off, would we be spending money in exactly the same places that we are today, the same amount of money?

General **Gast**. Well, with the exception of perhaps one country, certainly I don't think that if earmarks were off anyone would want to reduce assistance to Egypt and Israel, as I indicated in my comments.

Senator **Evans**. I know that. I am perfectly aware that that is a sensitive political issue. I don't ask the question to be antagonistic at all to our continued devotion to an independent and strong Israel and to advance the peace process in the Middle East. But can you really say with the same amount of money, with no earmarks, that you would start there and do exactly what we have said we would do by all of the earmarkings we put on there?

General **Gast**. Well, if you had the same amount of money or less, I believe that the purpose of my going around the map a little while ago was to say that some things would have to change in the world. You cannot stay where you are, in your position in the world, at those same levels.

You are either going to suffer greatly, or you are going to have to just stop with our relationship.

You know, I might add, Senator, that last year, at least in the Appropriations Committee, there was very little dialog, about specific countries. We had very little dialog, which did not serve any of us well.

And so, it was let's cut $800 million, and in order to cut $800 million, that means you have to protect what you believe are very important programs, such as aid to Pakistan and to some others.

Senator **Evans**. I would like for you to do the same thing that I asked Mr. McPherson to do.

In fact, Ed, if there is some combined effort, it would be helpful, and this is not done with a view toward reducing anybody. It is done with a view of really trying to set forth quite explicitly so that we understand that we simply need more money in these areas if we are going to carry on the functions that we intend to carry on and that we should carry on throughout the world.

So it would be helpful if you could have those priorities without earmarks, and I think that may help us to get sufficient funds necessary to handle all of our responsibilities.

General **Gast**. Very good, sir. I will give it a try.

[The information referred to follows:]

Question. If all of the earmarks and all funding floors were eliminated and the same amount of money was distributed for your activities, would you have a different set of priorities than those now given you by those artificial restraints?

Answer: The President has definitively established his priorities for security assistance funding in the fiscal year 1988 congressional presentation document. Rather than address a hypothetical situation in which fiscal year 1988 funds would be frozen at fiscal year 1987 levels without earmarks, we should recognize that the proposed fiscal year 1988 levels are those necessary to fulfill our national security assistance requirements and that, should fiscal year 1988 funding fall below the requested levels, we will be forced to reassess our foreign policy.

Senator **Evans**. Thank you, Mr. Chairman.

The **Chairman**. Thank you, Senator Evans.

Senator Sarbanes.

Senator **Sarbanes**. Mr. Chairman, I know that Senator Kassebaum has been here for quite a while, and I would be happy to defer to her and let her ask her questions.

The **Chairman**. Senator Kassebaum.

Senator **Kassebaum**. Thank you very much. I just have two brief questions.

One question follows on Senator Sanford's. I have been concerned about exactly what plan was in place for the implementation of the $300 million. It is all ESF money, so, Mr. Derwinski, I believe that would come through your oversight responsibilities, would it not, since it is ESF?

Mr. **Derwinski**. Well, ESF would come through Mr. McPherson, with my practical input.

Mr. **McPherson**. The division is that AID manages the ESF and the Secretary and those, such as Mr. Derwinski, have a policy role in connection with that.

Senator **Kassebaum**. So, how the $300 million will be spent will fall to you, then, Mr. McPherson. Is that right?

Mr. **McPherson**. That's correct.

Senator **Kassebaum**. Well, I think we all share a desire to make sure that we are supportive of economic development efforts in the Central American region. I think it is very important.

I have had some concerns, however, about exactly how the $300 million was going to be spent and wondered if we are not viewing it somewhat as "guilt money" at this point. I hope that there is a plan in place. Really, before I vote for the $300 million, I want to see the plan.

Mr. **McPherson**. I certainly do not see it as "guilt money."

Senator **Kassebaum**. No, of course. I really don't mean that either. But somehow I hope that we are not falling into a rut here.

Mr. **McPherson**. We need to get you some full thoughts on the matter.

We would expect that a substantial portion of these resources will go to support continued economic policy reform in these countries and will be fairly fast disbursing.

Senator **Kassebaum**. I would like to know specifically who will be overseeing these funds, what channels they will be going through, and how much to each country or, proportionate, exactly what the use is going to be.

Mr. **McPherson**. Sure.

Senator **Kassebaum**. We have already spent quite a bit of money, as you said in reply to Senator Sanford, and we are about $1 billion behind the Kissinger Commission recommendations.

Mr. **McPherson**. That's correct.

Senator **Kassebaum**. On the other hand, there were some of us who were concerned at the time of the Kissinger Commission recommendations about exactly the format for the moneys and the oversight of that spending.

Mr. **McPherson**. I would like to get that to you, Senator. I think that after these 2½ years—and it has only been 2½ years that we have had money under the Kissinger plan—we have had some good results. In Central America, in the first 3 years of this decade, almost half a billion dollars left the area in capital flight.

In the last 2½ or 3 years, almost half a billion dollars has come back. The economies have basically stabilized.

I know you are not questioning that kind of thing.

Senator **Kassebaum**. Well, just what came back? Has that come back through our aid money, or do you mean it is actually capital that left the country that is now being put back into the region?

Mr. **McPherson**. It is now being put back.

In places like Costa Rica, you clearly have a substantial amount of money going back, and that is despite the war in El Salvador.

The growth has not sustained; that is, substantial growth has not occurred yet. But there are figures like that, 15 percent of the nontraditional exports.

I would like to get to you a kind of outline of what we see as having been achieved in the last few years, and I would like to get you a plan for the future.

Senator **Kassebaum**. I would very much appreciate that because this vote will be coming soon, and I think a lot of us would really like to know a little more of the specifics of the plan. It has been vaguely talked about now for a couple of months.

[The information referred to appears in the appendix.]

Senator KESSABEUM. My other question is on the budgeting approach that has been taken in Africa. I want to compliment you on innovative thinking.

Mr. MCPHERSON. I called you the "godmother"of this endeavor.

Senator KASSEBAUM. Well, we had better wait and see how it works first, before we accept responsibility for it. [General laughter.]

In your approach, on the Development Fund for Africa, you removed the functional accounts. Do you see any management problems with having the sub-Saharan African region without functional accounts and the rest of the development aid programs will be under functional accounts for the rest of the world.

Is this going to create a two-track problem for you in management?

Mr. MCPHERSON. I don't think it will be a problem at all. In some senses, we have already had a kind of small Africa Fund because, you will recall, the Sahel account was not functionally divided by Congress either, and that portion of the ESF which has now been proposed to be turned into this Africa account was not divided by function either.

So we have had experience for some time with this format, and I believe it will be very easy to make such a shift.

Senator KASSEBAUM. Have you given any thought to moving to a budget approach which would take all areas to a regional account and combine ESF and DA, so that you have the whole budgeting approach by region with a combined ESF/DA account?

Mr. MCPHERSON. I think our feeling would be that we need to see how the Africa approach works, both managerially and, to be honest, in what Congress does with it. If it ends up that we get an Africa account which then is earmarked within Africa, we would then have lost further flexibility, instead of having gained flexibility.

The concept of looking at various geographical regions and thinking about them geographically is the way we approach it now. Organizationally, we are set up that way. I have an Africa assistant administrator, one for Latin America, et cetera. So there is a conceptual strategic plan.

Senator KASSEBAUM. That may make it easier to translate, then, into a budget reality.

Mr. MCPHERSON. Yes. The Africa Bureau thinks about its budget and the Latin America Bureau thinks about its budget. If you did not do that, you would not be able to have a coherent plan.

We think about a Central America program, for example.

Senator KASSEBAUM. On the other hand, if we did do it by region in the budget, we would remove the earmarks which have hampered us when we face across-the-board budget cuts, for instance, which do protect certain countries, rather than regions, in which, then, there should be, I think, some flexibility to make an analysis at any given time.

Thank you very much. I think it will give us an opportunity to assess that. I hope that we can do so maybe in the light of looking to the rest of the budget, with that approach.

Thank you very much, Mr. Chairman.

Thank you, Senator Sarbanes, for yielding.

The CHAIRMAN. Senator Sarbanes.

Senator SARBANES. Thank you, Mr. Chairman.

General Gast, I don't want to spend a lot of time going over your charts, so just let me ask a couple of questions.

In comparing the levels of military assistance versus economic and humanitarian assistance, you are including ESF in the economic and humanitarian assistance, aren't you?

General GAST. We are, Senator.

Senator SARBANES. OK.

Mr. McPherson, if we only included development assistance, food and contributions to the multilateral institutions as "economic and humanitarian assistance," what would that percentage be as a share of the foreign assistance funding?

Mr. MCPHERSON. Well, if you include the ESF——

Senator SARBANES. No, not including the ESF.

Mr. MCPHERSON. Let us work out a percentage for you right now. Do you want food and DA?

That is about $3.5 billion. Let us work out the percentage for you.

Senator SARBANES. Have those items experienced a downward trend as a percentage of the foreign assistance budget?

Mr. MCPHERSON. As a total percentage, if you calculate only those categories, yes.

Senator SARBANES. Yes, it has?

Mr. MCPHERSON. Yes.

As you know, I will argue—and I really believe this, Senator—that the ESF should not be considered military or something other than economic. ESF is a very important economic development tool for us. About one-third of it is for project development. The ESF that we provide to Zambia, for example, is very key economic assistance, as it is for Pakistan and elsewhere.

Senator SARBANES. I think you probably would have to look at the use of ESF on a country-by-country basis, would you not, before you could make a judgment about it?

Mr. MCPHERSON. Well, you would want to do that. But I think a country-by-country analysis builds my case very strongly.

General GAST. If I may just add, sir, I don't know of any country where ESF is used for military. It may be for varying programs in the economic area.

Senator SARBANES. You mean not directly used.

General GAST. I don't know in any way that it is used.

Senator SARBANES. Well, if it eases the country's economic constraints, then the country may use its own budget resource for military programs, because of the breathing room given to it by the ESF.

Mr. MCPHERSON. It is very interesting to look at where cash transfers, as opposed to projects, occur. Remember, about one-third or so of our ESF is for project assistance—Pakistan, Egypt, and in a number of other places.

The other two-thirds goes as cash, and it is interesting to look at where that cash goes.

A large portion, of course, goes to the Middle East, to Israel, and some to Egypt. Another large group goes to base rights countries, or however you would like to classify them. Another goes to Central America. There are just smatterings of moneys that are cash to other places.

I think, in fact, that keeping those cash transfers to serve our foreign policy interests is important, and I think we have done a pretty good job of making those a key part of obtaining policy dialog, economic changes, in countries.

If I had not had cash to work with in the Philippines, in Haiti, and in Guatemala, in the last year, for example, our ability to have an impact upon those economies would have been dramatically reduced.

I really think that we have been able to make use of ESF policy dialog as effectively as anything that I have been able to do since I have been here.

Senator SARBANES. I don't want to belabor the point, but, of course, the GAO report of January 1987, to the House Foreign Affairs Committee, has, in fact, pointed out the very problem that we are discussing. It seems to me that it is a problem.

I only make the point because I think that the tables and charts constructed with a total treatment of ESF in one way probably is not accurate. I would not argue for treating it entirely in the other way, either.

Let me just pursue a couple of other points.

General, I am interested in the point you make on page 30 of your statement, on the interest rates set under section 23. You are seeking a change in the law, I take it?

General GAST. Yes, sir, we are.

We thought we were all right last year and the year before, but it really did not work out that way.

Let me say, one, that we don't believe this will have any effect on the outlays or the expected receipts.

Senator SARBANES. When do we borrow the money on the basis of which the loan is made?

General GAST. Whenever the Treasury goes out and borrows the money as countries draw down on their loans.

Senator SARBANES. But the interest rate we charge the country is not that rate, I take it?

General GAST. No, sir. For example, Turkey, Greece, or any other country that might be drawing down on loans that were made 2, 3, or 4 years ago, are now paying 11 or 12 percent, even though it is costing us only 7.5 or 7.75 percent.

Senator SARBANES. What rate, what standard is used to set the rate which the country pays?

General GAST. Today the rate is fixed when they sign up for the loan, as a result of appropriated moneys.

We have several countries which still have loans that are 2 or 3 years old, and they are fixed at 11 and 12 percent, because fixed rates is the way the law reads, instead of at a floating rate. We believe that a floating rate is fair to the United States and it is fair to the countries and it has no budgetary impact.

Senator SARBANES. Well, we make money on the loan at the moment.

General GAST. Yes, we do today. In the future, if we kept it this way, if interest rates went up, we would lose money.

Senator SARBANES. Yes.

On page 29, regarding the transfer of excess or prospectively excess defense equipment, I take it that under the current arrangement you submit reports on such transfers. Is that correct?

General GAST. Yes, sir. We are required to notify the Congress and report to the Congress when there has been a final list that has been agreed to between the executive branch and the countries. The countries are informed of certain things and they may or may not decide to take these particular items.

Senator SARBANES. Do we get a report on what is actually transferred?

General GAST. Yes, sir. The Congress does. I am not sure about this committee. If it does not, we would be sure to get a report to you. It is called for by law.

Senator SARBANES. Could we have a report on what has been transferred under the temporary authority that has been in effect for the last two fiscal years.

General GAST. No, sir. I believe 1987 is the first year that we are authorized to do that.

The report has not been submitted to Congress because the countries have not decided yet whether they want what has been offered.

We will submit the report as soon as they have decided.

Senator SARBANES. Do you mean that no transfers have yet been made under this authority?

General GAST. No transfers have been made, and there is a requirement to notify before we do transfer.

Senator SARBANES. Well, it seems to me that if you are asking this committee for a permanent authorization, we need to know exactly what has happened thus far.

General GAST. Yes, sir. We would be glad to talk with your staff about it.

I think this came out of the Armed Services Committee, and I think quite rightfully so. The two chairmen of the House Foreign Affairs and the Senate Foreign Relations Committees said let's make this permanent and make it regular by putting it within the AECA and therefore offer an extension.

We only have 2-year authority, as it is right now, and then it should be regularized.

Senator SARBANES. Could we have as full a report on this as it is possible to provide?

General GAST. Certainly. Yes, sir.

I think it would probably be at least 1 month before we know just what will be transferred, before we can notify Congress.

Senator SARBANES. I'm sorry. I missed that.

General GAST. I think it will be at least 1 month or perhaps longer before we will be notifying Congress of any particular transfers because countries have not yet decided. They want to come and inspect it, and some of the offerings may not be satisfactory to them. But we will notify the Congress before we transfer anything.

Senator **Sarbanes**. If you are asking for permanent authority, I think we need to know exactly what it is you are proposing to do with this authority.

General **Gast**. Yes, sir. I think you will have that.

Senator **Sarbanes**. Even if you don't have a final submission, I think we ought to have at least the benefit of knowing what has been done.

General **Gast**. I would hope all of that would be far more visible before markup of the bill.

Senator **Sarbanes**. I guess I have a question probably to Secretary Derwinski and perhaps to yourself. How many countries do you regard as "base rights countries"?

Mr. **Derwinski**. I would say Portugal, Greece, Turkey, Spain, the Philippines, and then I would think, depending on circumstances, Morocco.

Senator **Sarbanes**. Do you regard Pakistan as a base rights country?

Mr. **Derwinski**. With Pakistan, the emphasis is primarily on their very special support regarding our concerns in Afghanistan and our longstanding relations with them.

Senator **Sarbanes**. The amount you are requesting there represents a significant increase over the previous arrangement.

Is that correct?

Mr. **Derwinski**. I am told that, say, for the last two 5-year periods the figures are about the same, but there has been a shift to more economic assistance overall. It is a slightly higher percentage of economic assistance.

Senator **Sarbanes**. I'm sorry I was not here for your statement, but did you address the nuclear proliferation issue as it relates to Pakistan?

Mr. **Derwinski**. I offered to answer any questions that might come up, and I have, among other things, in anticipation of the committee interest, felt that the most practical document that I could bring with me is the speech by Ambassador Hinton, in which he directly addressed the issue. This was about 3 weeks ago, when he delivered an address in Islamabad.

Senator **Sarbanes**. We will make reference to that. I see that my time is up. I will come back to that.

Mr. **Derwinski**. Would it be helpful if I asked that Ambassador Hinton's speech be inserted into the record, Mr. Chairman?

The **Chairman**. Without objection.

[The information referred to appears in the appendix.]

The **Chairman**. Thank you, Senator Sarbanes.

Senator Helms.

Senator **Helms**. Thank you, Mr. Chairman.

Mr. McPherson, let's return to the general subject we were discussing when the time ran out on the last round.

I want to compliment you on the eloquent plea that you made for the United States to feed starving children without regard to politics. I agree with that. I don't care what are the politics of the parents, or whatever, a starving child needs our help.

Mr. **McPherson**. Yes, Senator. I know that in the past you have been supportive of that.

Senator HELMS. Now, I hope that I have not detected a contradiction because you have refused even to talk with RENAMO's representatives because of the political considerations involved. Is that correct?

Mr. MCPHERSON. Senator, what I think is important is to be sure that those people are dealt with or talked to in such a way that we get the food there, and the context in which I am working is to try to get that done.

It seemed to me that one way to achieve that end was to get the U.N. to appoint somebody who could deal and talk with everybody.

Now, I think if you want to talk about the broader foreign policy interests and how we approach it——

Senator HELMS. Pete, excuse me, but you are not answering the question.

On the one hand, you and I agree that a starving child, or that starving children ought to have some food, and you made that eloquent speech yourself, and then you said "except."

Now, I don't understand what you are saying, but I think it is kind of a copout for you to say "except."

Let me put it this way, just as bluntly as I know how: Is it or is it not the administration's policy that a starving child has no politics unless he or she lives in RENAMO controlled areas?

Mr. MCPHERSON. Senator, that is not the policy.

Senator HELMS. Well, what is the policy?

What are you going to do about these children? Are you going to let them starve while you try to work out something politically, when you say that politics ought not to be involved in feeding starving children? You can't have it both ways.

Mr. MCPHERSON. We are going to try our darnedest to get food to everybody who is starving. The effort to do that, as you have known from my past efforts to get food in this way, have been substantial.

Senator HELMS. Let me give you a simple yes-or-no question.

Will you be in contact with RENAMO about providing U.S. food aid?

Mr. MCPHERSON. The U.S. Government at this time has not been and we expect that the U.N. person will be.

Senator HELMS. Now I didn't ask about the United Nations. I asked about you.

Mr. MCPHERSON. I don't expect to sit down and talk to the RENAMO people, no, sir.

Senator HELMS. You don't expect to?

Mr. MCPHERSON. That's correct, sir.

Senator HELMS. So, meanwhile, these children are excepted from your and my declaration.

Mr. MCPHERSON. No, Senator, that is not true.

Senator HELMS. Well, what is true?

Mr. MCPHERSON. You know very well that I will try my very best to get that food there.

Now there are obviously some delicate problems and issues to work through, and I will certainly work at them.

Senator HELMS. You keep talking about the United Nations doing this and the United Nations doing that. Really, Pete, I want to be a friendly adversary on this point. I am not trying to badger you.

But are you really persuaded that the United Nations, with the heavy control that the Soviets and their Third World allies have in the United Nations, that the United Nations is really going to be willing to get food aid to the Mozambique freedom fighters, just for example?

Mr. McPHERSON. Well, I don't think we should get food to any freedom fighters. But that is not what you intended precisely.

You are talking about children, about starving people, noncombatants, in areas where there is great RENAMO activity.

Senator HELMS. Well, I used that just as an illustration about the United Nations.

In 1980, at the request of the Marxist Government of Ethiopia, for example, the United Nations dragged its feet in getting food to the Somali refugees, including those starving children that you and I talk about—the Somali refugees from Ethiopia.

So the answer to the question is that you are not going to talk with RENAMO?

Mr. McPHERSON. Senator, let me put it this way.

I think we need to get that food to those starving people. There are some problems, and every time I bend on one of these, there are some problems. There are problems in getting food to southern Sudan, for example. I would be happy to continue to talk to you about this as the days go on.

Senator HELMS. Well, I will be glad to talk to you at any time. But I want you to talk to the RENAMO people and get some food to those children, because those little bellies hurt like everybody else's.

Let me move on to another area.

First of all, Mr. Chairman, I have some written questions for Mr. McPherson which I would file with you.

Mr. McPHERSON. Senator, we cannot leave this hearing without your asking me about UNFPA. That would not be right.

Senator HELMS. Well, actually I wanted to ask you if my understanding is correct that you relieved Julia Bloch from her duties as Assistant Administrator for Food for Peace. Have you relieved her?

Mr. McPHERSON. I have transferred her. Yes, Senator.

Senator HELMS. Did you consult your counsel about that?

Mr. McPHERSON. Extensively, Senator.

Senator HELMS. Sir?

Mr. McPHERSON. Yes, sir. I have.

Senator HELMS. They said that the Constitution of the United States didn't matter, then—because, as I understand it, the President of the United States is given the power of appointment and the U.S. Senate approves, under our advice and consent.

Now the President and only the President can appoint individuals to an assistant administrator job at your agency, and only with the advice and consent of the Senate.

Now, I don't read it, and the constitutional authorities whom I respect do not give you the power to shift a person from one job to another.

So what you are saying to me is that she was shifted from one assistant administrator's job to another by you, and the President has not submitted her name for the new job. Is that correct?

Mr. McPHERSON. Let me review it, if I can, Senator.

Senator HELMS. OK.

Mr. McPHERSON. For probably 20 years, if not longer—AID has been in existence for 25 years—the authority has been pursuant to statute, in the judgment of my legal counsel, in the hands of the administrator to transfer an assistant administrator from one job to the other.

As you look at the formal paper in which assistant administrators of AID are confirmed, they are confirmed not as Assistant Administrator of Food for Peace, or Assistant Administrator for Asia, but they are confirmed as assistant administrators.

That function, that ability to transfer, has not only been exercised by me in the past, but it has been exercised many times by administrators over these many years.

That was what I did this time.

Now, I alerted Congress in advance that I was doing this, but it was an authority which I believe has much precedent.

Now, of course, it is entirely appropriate for this committee to look at that authority, because if the law should be changed, if I should not have that authority in the judgment of Congress, then, of course, that is appropriate. But I do believe strongly, Senator, that I have and that previous administrators have exercised this authority.

I would very much like to provide the legal opinion to that effect.

The CHAIRMAN. If the Senator would yield for a moment on this——

Senator HELMS. Yes, certainly.

The CHAIRMAN [continuing]. I just want to say that the record should show that I concur with the Senator from North Carolina. The administrator and I discussed this at some length, that an appointment is made to be an assistant administrator for a particular area, whatever it is, such as an Assistant Secretary of State for Latin America or for a different area. The fault perhaps rests with us in that we have not amended the law.

I do think that lawyers are hired to give any opinion you ask them to give, and that is what they always do.

Senator HELMS. Amen to that.

Mr. McPHERSON. Well, that may be true, Senator. Having been a lawyer, I appreciate that lawyers can disagree.

But I also think it is absolutely clear that this authority has been exercised many times.

[Senator Helms nods negatively.]

Mr. McPHERSON. Senator, that is correct. It has been exercised many times. I myself have exercised it. Other administrators have. And Congress has never questioned it, or to my knowledge has never questioned it.

Now, it may not be the way the law should be. But that, in my judgment, is the law.

Senator HELMS. Well, let's settle it in this way.

Have your lawyer give me, or the committee, the precedents to back up that information.

Mr. McPherson. We look forward to that.

Senator Helms. Good.

Thank you, Mr. Chairman.

[The information referred to appears in the appendix.]

The Chairman. Thank you, Senator Helms.

Senator Sarbanes.

Senator Sarbanes. I just want to be clear on this last point.

Your position, as I understand it, is that you have an opinion supporting this practice from legal counsel, and that since virtually the beginning of AID administrators have transferred assistant administrators to different responsibilities. Is that correct?

Mr. McPherson. Yes, sir. That is correct.

I myself have exercised it twice during my tenure, prior to this.

Senator Sarbanes. Pardon?

Mr. McPherson. During my tenure, prior to this, I have exercised this authority two different times.

Senator Sarbanes. And you say past administrators have done so as well?

Mr. McPherson. Yes, sir.

Senator Sarbanes. From early on? I mean, it has been a consistent interpretation of the law, that such transfers are permitted?

Mr. McPherson. That is correct.

Senator Sarbanes. And you are going to submit those precedents?

Mr. McPherson. Yes.

Senator Sarbanes. Mr. Chairman, I would simply say, assuming the legal opinion and the precedents are as they have been reported to us, it seems to me that Mr. McPherson has not done anything amiss.

Now, if the Congress wishes to look at the law and decide that people should be confirmed for a specific position and a specific position only, that is a judgment to be made. But, as I understand it, the administrator has operated in a manner consistent with past practice and previous interpretation of the statute, in which the Congress has, in effect, acquiesced over the years.

So it seems to me, from the sounds of it, that nothing improper has been done here by the administrator.

The Chairman. I am not criticizing the administrator. I, in my statement, have suggested that maybe we in the Congress should amend the act.

But I will stick to my guns. It seems to me wrong if you can go to the Department of State, for example, and appoint an individual to be Assistant Secretary for Latin American Affairs, and then have that person moved around by the Secretary of State.

Senator Sarbanes. Well, we ought to make the law clear if we think that is a problem. Otherwise, my sense here is that the administrator has acted according to past practice and, I take it, with a very carefully developed legal opinion in this matter.

Mr. McPherson. I worked at this very carefully.

Senator Sarbanes. I would assume so.

How much money are we putting into the base rights countries?

Mr. Derwinski. Our request for fiscal 1988 is $2.98 billion. I don't have the breakdown before me. That compares to the fiscal

1987 request of $2.344 billion and the $1.521 billion we received in fiscal 1987.

Senator **Sarbanes**. How much are you asking for per country? Do you have that?

Mr. **Derwinski**. For $2.86 billion. That is the grand total. Let me see if I can get a breakdown here.

Greece, $436 million; Portugal, $207 million; Spain, $280 million; Turkey, $913 million; and the Philippines, $250 million.

Senator **Sarbanes**. Well, I don't think we need an extended discussion. You have obviously departed from the congressionally established ratio on Turkey and Greece, and these figures keep escalating upward in any event. They become simply a base that everyone has to swallow the next time around, and it is one way of earmarking larger and larger chunks of the foreign assistance budget.

General **Gast**. Sir, I have a chart which I believe you have in front of you which shows at least Europe and how much money has been appropriated over the last few years.

The request for 1988 is less than the request for 1987 by over $240 million, for what was called base rights countries, the southern tier of NATO plus the Philippines. It is not what we requested. It is more than what we got in 1987.

Senator **Sarbanes**. You were cut very sharply in 1987.

General **Gast**. We were cut drastically.

Senator **Sarbanes**. And you will be cut sharply again in 1988.

General **Gast**. We were drastically cut in 1987.

Senator **Sarbanes**. Well, obviously there is another cut coming in 1988. The question is how much and where.

General **Gast**. Of course, we think that will be very, very damaging in many, many ways.

Senator **Sarbanes**. We understand that.

You know, I think you gentlemen make a fairly effective case for your part of the budget. The problem is that your budget is presented in the context of a broader budget, which has extraordinary difficulties in its basic premises, and the consequence of that is that your budget ends up having to take some of the constraint and the restraint that the Congress is forced to impose.

I have told the Secretary this repeatedly during his testimony. It is not enough for the Secretary to make a strong plea about the desirability of his budget if he cannot get his budget presented by the administration in the context of a broader budget which is more reasonable.

Once again, we have a broader budget which places enormous pressures on this budget and on other budgets, for that matter, that are coming to the Congress.

It is my own view, of course, that at the margin, some of the money going to Secretary Weinberger would be better spent in terms of advancing the security interests of the country if it went to Secretary Shultz.

I asked Secretary Shultz that question and he refused to answer it.

General **Gast**. Secretary Weinberger said in his statement before the House that he agreed to a 3-percent increase only with the assumption that strictly assistance would be appropriated at the request levels.

I would only add one other point, and I know that you have looked at the charts, Senator.

The 150 account, which I argue for as strongly as anyone, in the President's request is not out of line with what has been done in the past. It is staying steady at about 1.7 percent, with the exception of last year, when it took a terrible plunge, down to 1.4 percent.

So, the 1.7 percent is in context. In fact, the 1988 request is what we got in 1986.

Senator **Sarbanes**. Well, I would simply say that I think there is probably something to be gained in addressing these base rights countries and addressing the ratios between them in those instances in which there is a regional problem.

On Pakistan, I understand there is a 25-percent increase in the aid request for the next 6-year period, as compared to the 6-year period that we have just been through—from $3.2 billion to just over $4 billion.

Mr. **McPherson**. It is a 6-year program, as opposed to the 5-year program of last time. It is stretched out over one more year.

Also, as was indicated earlier, the economic versus military ratio is now different. I believe the economic portion is 57 percent and the military is 43 percent.

General **Gast**. For example, the military over these next years is about $290 million a year, versus $310 or $325 million.

Senator **Sarbanes**. We will have to look at the Hinton speech. Obviously there is a difficult issue there that has to be addressed.

Mr. **Derwinski**. If I may add, Senator, that was done in a very calculated fashion as part of our continuous pressure on the Pakistani Government.

Senator **Sarbanes**. Does the administration have a developed fallback position with respect to this budget? Suppose the committee has to make significant cuts on the basis of the allocation given to us by the Budget Committee. Do we have a sense from you of what the priorities are within this budget?

Mr. **Derwinski**. We are still hoping against hope, perhaps, that we will salvage a major portion of our request. We are hoping, though, that should there be a smaller pie to work with, at least we will have some input into priorities within any figure that is finally approved for us in the 150 account.

General **Gast**. From a defense point of view, Senator, no, we do not. In fact, I think what happened in 1987 is so bad that I am not sure that people can recognize priorities at this stage, until we understand the impact of what happened in 1987, as a result of it.

Senator **Sarbanes**. Well, General, here is where we are.

We have a Gramm-Rudman requirement to reach a $108 billion deficit. When that law was passed, the assumption was that deficit target would represent a $36 billion cut.

General **Gast**. I understand, sir.

Senator **Sarbanes**. It was to move in equal steps.

The fact of the matter is the deficit was larger this year than that which was projected, so the cut is going to have to be about $70 billion, more or less. A budget was submitted to the Congress by the President which, I think at the time it was sent, recognized that the cuts he was proposing in a range of domestic programs would never be accepted by the Congress. I mean, they weren't even reasonable to put on the table.

Then, the rest of the budget was structured off those unreasonable premises.

Now, assuming the Congress refuses to make those kinds of cuts, either in the degree suggested or, as in some instances, to eliminate the programs entirely, then you are going to have to look elsewhere to find the money. There are not many places to look. This is one of them, and I think that is just the situation that confronts us.

The President continues to press for not changing any of the spending priorities, for not addressing anything on the revenue side, and for sticking to the $108 billion figure.

General **GAST**. I understand what you said, sir.

Senator **SARBANES**. I have some sympathy with your point, although I disagree with some of the specifics of what you are doing, as you well know. We hope to remedy and to rectify it.

But I think, overall, it is reasonable to make the point that if we are going to seek to exercise the influence of a great power in the international environment, we have to be prepared to commit the resources to back up that role. We cannot carry out that role without the proper resources.

I have no quarrel with that underlying premise. But we are now presented with a context in which working from that premise it is not going to be possible.

General **GAST**. I think what you are talking about, and which we acknowledge, is that there is not much constituency for this program, and that it is up to the administration to go around and talk with people to try to promote an understanding of the importance of this area.

Senator **SARBANES**. It is a tough program for which to generate a constituency even if it is presented in a context that does not raise these very pressing domestic questions.

General **GAST**. I understand that, Senator.

Senator **SARBANES**. Presented in a context where those very pressing domestic questions are raised, it is a far more difficult proposition. That is what happened last year, and we are confronted with a comparable situation this year.

Thank you, Mr. Chairman.

The **CHAIRMAN**. Thank you, Senator Sarbanes.

I would like to follow up that thought of General Gast. He is so correct. There is no constituency for this program.

This is one of the reasons why I am always pressing the administrator to increase the proportion that is distributed through the voluntary agencies, because they really should be in it full blast.

I remember introducing a bill once saying that 90 or 100 percent should go through voluntary agencies. Then you would have every church and every synagogue across the country talking about the foreign aid program and building up a constituency for it. Instead of moving in these little 1- and 2-percent increments, I wish I could persuade you to move up channel 50 percent of development assistance through the voluntary agencies. I think you would find that you would have developed a constituency.

I know we talk blithely here about $4 billion for Pakistan, and we don't realize what that means: that every man, woman and child in the United States is digging down into his and her pocket for a $16 contribution. We don't think of that. We think that $1 million is nothing. Well, $1 million is about one-half a cent or four-tenths of a cent from every man, woman, and child in the United States.

I think we ought to think of that whenever we use this phrase, that any time we talk about $1 billion, we are talking about 4 from every man, woman, and child in this country.

I am sure that if you took a referendum, those $4 would not be forthcoming.

General GAST. Well, I think if you said that we were giving it away, it probably would not be forthcoming. But that is not the fact. We are not giving it away.

The CHAIRMAN. I would question in my State, from where I have just returned, whether they would really relish giving $16 each to Pakistan.

Incidentally, following up on Pakistan for a moment, don't you believe that in view of her movement toward a nuclear capability, there should be a shortening of the 6-year waiver you are proposing for the Symington amendment?

Mr. DERWINSKI. First of all, we are trying to get an exact reading of what, in fact, Pakistan does have and what it intends to do. We have been pressuring them and we continue to pressure them that they should avoid crossing that nuclear threshold. That will be the continued thrust of our policy.

We are going to use every means that we can to convince them of the practicality of not joining the nuclear club.

The CHAIRMAN. Well, why not hold the Symington waiver down to a 1-year extension, then?

Mr. DERWINSKI. I think we would be interested in discussing all of the possibilities and the potential for that kind of adjustment. I think anything relating to Pakistan we recognize will now be of special concern to Congress and open to our legitimate review with Congress.

The CHAIRMAN. I would agree. I think we recognize the gallantry of Pakistan and the position that she has taken. But, at the same time, we have to be evenhanded when it comes to nuclear proliferation.

Mr. DERWINSKI. We have the delicate question of the Pakistani role, her geographic value, her longstanding, effective relations, and now this special concern that has come up in the last few weeks because of the allegations about their nuclear capacity.

The CHAIRMAN. But I understand from the Pakistani viewpoint, the belief is the man was misquoted. This has to be straightened out and analyzed by our Ambassador, which is another reason to get an ambassador there as quickly as we can.

Mr. MCPHERSON. We have spent quite a lot of time on this issue, and, of course, everyone is working and worrying about it. After all, this is waiver authority. This is not just absolutely forgetting the issue.

So, I think our view that this needs to be a multiple-year authority is a reasonable one, and it is certainly the strong position of the administration, that we seek this multiple-year authority.

The CHAIRMAN. Thank you very much.

The record will stay open until the end of the day. A number of my colleagues will be submitting written questions.

This meeting is adjourned.

[Whereupon, at 12:55 p.m., the committee adjourned to reconvene at 9:40 a.m., Thursday, March 12, 1987.]

APPENDIX

DISCUSSION OF THE SYRIAN-SPONSORED PEACE AGREEMENT FOR LEBANON

(Agreement signed on December, 28, 1985 in Damascus by Mr. N. Berri, Mr. E. Hobeika, Mr. W. Joumblatt and witnessed by the Vice-President of Syria Mr. A. Khaddam).

Widespread coverage has been given to the Syrian-sponsored Peace Agreement, whose stated aim is to bring an end to the hostilities in Lebanon and establish a more realistic political structure.

It is important to study the complete text, a copy of which is attached, to avoid any misunderstanding. A brief reading shows why most Lebanese oppose the Agreement, including President Gemayel and many leaders of the Sunni, Shiite, Druze, and Christian communities, and why Syria has steadfastly refused to have the Agreement submitted to the open constitutional approval process in Lebanon.

The Agreement has four basic objectives, all of which could be valid if properly accomplished:

1. End hostilities in Lebanon and establish law and order.
2. Modernize the Lebanese State by modifying the present sharing of power among the various communities through more equitable distribution, while insuring full individual and collective security for these communities.
3. Improve the structure, roles and responsibilities of the executive, legislative and juducial branches.
4. Re-define the Lebanese-Syrian relationship towards becoming more constructive.

The Agreement succeeds on the first objective, and fails on the last three; in other words, the Agreement essentially guarantees Syrian-imposed internal stability in Lebanon in exchange for Lebanon giving away its sovereignty and independence to Syria.

Most Lebanese favor near-term transition to a modern democratic system of government whose function is, as in all democracies, to serve the national interest while preserving both the individual and collective security within the various communities, and the pluralistic national character.

However this Agreement compounds the present inequity by merely transferring power from one group to another, while certain communities are placed in potential jeopardy. A true sharing of power and strengthening of relationships among the communities are required. An undemocratic process can not yield a democratic result.

Lebanon's executive, legislative and judicial branches are weakened. Three examples suffice:

One, the essential executive powers of the President and the Prime Minister, Christian and Moslem respectively, are transfered to a Ministerial Council of six (Chapter III, page 5) where every member has a veto power - a sure formula for Lebanese paralysis and Syrian arbitration.

Two, the present Parliament is to be expanded from 88 present living members to 198 members solely by appointing, not electing, 110 new members. One can easily speculate the political orientation of these non-elected parliamentarians who alone would constitute an almost 60% majority, in the climate of Syrian control.

Three, the Lebanese Army is to be withdrawn to its camps, until it is totally "rehabilitated" under Syrian direction and training, (Chapter III, pages 8-9), and in harmony with Lebanon's role as part of Syria's strategic military and political objectives in the region (Chapter IV, page 9, section 2). Syrian units will be stationed at all points deemed appropriate by Syria, and Syrian officers with Lebanese Army and Internal Security Forces.

FOREIGN POLICY AND REGIONAL SECURITY:

The Agreement requires (Chapter IV, pages 9-10, section 1 and 3) that Lebanon becomes an extension of Syrian policy in both strategic and regional matters. This means that Lebanon, against its will, would be forced out of the community of the Free World, away from its pro-West, pro-U.S. tradition, and become an active participant in support of Soviet-Syrian objectives. To the extent that these policies oppose peace initiatives, subvert U.S. influence in the region, and stimulate regional instability, this Agreement is a major step backward for U.S. and Lebanese interests.

EDUCATION:

Lebanon's free, open educational system, by any measure the unparalelled model of success for the entire Arab World, would become state-controlled, and governed by Syrian-sponsored requirements for "educational reform" (Chapter IV, page 10, section 5).

No part of this Agreement is as destructive to the free human spirit as this portion, and bears careful study by the thoughtful reader.

Implemented literally, it would essentially destroy the intellectual and cultural foundation and heritage of Lebanon's society by a magnitude of thought-control imposed on children and students unsurpassed anywhere. For example, five years of this Agreement in action would accomplish what fifteen hundred years could not, namely a Christian child would be deprived of an education based upon the beauty and richness of his own religious legacy.

ECONOMY:

Lebanon's unparalelled free economy would be welded to Syria's weak state-controlled economy, governed by bilateral agreements and laws (Chapter IV, page 10, section 4). This Syrian lead role would result in the decline of Lebanon's Western-oriented commerce and banking relationships, the replacement of Western trade delegations and relationships with those of the Eastern Bloc countries, and atrophy of Lebanon's robust private economy.

FREEDOM OF PRESS:

Lebanon's free press is the sole example of a non-state controlled press in the entire Arab World.

The Agreement (Chapter IV,page 10, section 6) makes a cold, simple, brutal demand for a state-controlled media unilaterally supporting Syrian state policy without question or dissent.

SUMMARY REFLECTIONS:

To understand Lebanon's true character and value, one must look beyond the disorder and violence, as communities have retreated within themselves for bare survival, in the vacuum created by the collapse of order resulting from massive external interference and infiltration.

Lebanon is part of the Free World, with a tradition of liberty, pluralism, and the dignity of free man in a free society. The regional powers can help Lebanon restore itself. In return, Lebanon's gift to the region is the presevation of Lebanon's sovereignty, unique national character and democratic institutions.

PREPARED STATEMENT OF NANCY ALEXANDER

Mr. Chairman, I am Nancy Alexander, legislative secretary of the Friends Committee on National Legislation and chairperson of the International Development Policy Work Group of Interfaith Action for Economic Justice. Interfaith Action is an agency of 29 national Protestant, Roman Catholic, Jewish, and ecumenical agencies that work together on federal legislation seeking justice for poor and hungry people.

Interfaith Action welcomes this opportunity to share our views on the foreign assistance program. We monitor US foreign aid because of our commitment to economic justice and our desire that US assistance help meet the basic human needs of the poor majority in developing countries. While our effort stems from our concern for justice, we believe very strongly that assisting these most disadvantaged people in the developing countries, helping them improve the quality of their lives, is one of the most valuable contributions this nation can make to our own security and to the promotion of a just world order.

Of course, the foreign aid program is only one way that US policy affects the economic health and well-being of people in the developing countries. For instance, the impact of US budget and trade deficits on interest rates, the manipulation of exchange rates, US agricultural policies, and trade restrictions all have profound consequences for the Third World poor -- consequences which we would do well to bear in mind as we focus our present attention more narrowly on the quality and quantity of US foreign aid.

I. The Crisis in Foreign Aid: Priorities Rather Than Resources

For the past six years the Reagan Administration has requested substantial increases in foreign aid spending in general and military aid in particular. For the most part, and until recently, Congress provided both. One result has been a foreign aid program increasingly skewed toward security aid to strategic allies, a trend we have consistently opposed before this and other congressional committees. The other result has been increased pressure to find budgetary savings in the area of international affairs, which last year resulted in a long overdue reduction in the military aid account.

With even deeper cuts required this year to meet deficit reduction targets, total foreign aid spending may decrease for the third year in a row. As resources become scarce, the tradeoffs come more clearly into focus, and hard choices must be made. For religious agencies such as ours, this translates into a particular concern for the well-being of the poor, both in the United States and in the Third World. While we are convinced that the deficit must be reduced, we believe it should not be done at the expense of the poor.

In our view, the actual test of a foreign aid program is whether it reaches poor people and helps them improve the quality of their lives. We believe the Administration's foreign aid package fails this test, particularly in its continuing emphasis on security assistance. Military and related programs do not further the goal of helping poor people meet their basic needs; indeed, we find them on the whole to run counter to that objective.

Therefore, unlike many from whom you will be hearing, we are not advocating an increase in the foreign aid budget or in function 150 as a whole. We instead recommend that you freeze the 150 account, and at the same time redirect resources within the existing program toward development assistance that meets human needs. In our view, a bigger foreign aid "pie" would probably not be a better one, with a bigger slice for the type of programs we advocate. Our qualitative concerns about foreign aid not only preclude us from taking a blanket approach to development assistance but also leave us deeply concerned about what is contained in the other, nondevelopmental slices of the pie.

II. A Demilitarization of US Foreign Aid is Long Overdue

Congress declared in the Foreign Assistance Act that "the principal purpose of United States bilateral development assistance is to help the poor majority of people in developing countries to participate in a process of equitable growth through productive work and to influence decisions that shape their lives, with the goal of increasing their incomes and their access to public services which will enable them to satisfy their basic needs and lead lives of decency, dignity, and hope."

We have serious doubts that this purpose will be achieved by the Administration's Fiscal Year 1988 foreign aid budget, of which more than 60 percent--some $9.4 billion--would be provided in the form of security aid to countries not selected on the basis of human needs criteria. Similar priorities are expressed in the Administration's FY 87 supplemental aid request, which asks Congress to provide $1.3 billion in additional foreign affairs spending, most of which would be provided as security aid to base rights and Central American countries. As you will note in the attached chart, the degree of imbalance in the current and proposed aid program is especially pronounced when compared to the roughly 50-50 breakdown between development and security aid that characterized the foreign aid program at the beginning of the decade.

Several figures help illustrate the dramatic changes that have occurred in the aid program over the last six years. By our calculations, military assistance has grown by nearly 60 percent since FY 81 in current dollars. One component, grant military assistance has risen by over 700 percent over the same period, and would go, under the Administration request, to 34 more countries than it did in FY 81. Economic Support Fund aid, the majority of which is provided in the form of cash transfers to strategic allies, has grown 69 percent. In contrast, development assistance (including multilateral, bilateral, and food aid) has increased by less than one percent. When inflation is taken into account, development assistance has suffered a real decline while the foreign aid budget as a whole has grown dramatically.

The Administration's FY 88 request would further the trend toward military assistance, increasing total military aid by around $800 million and grant military aid by 47 percent relative to FY 87. The development aid category would also increase, due largely to the proposed doubling of resources for the multilateral development banks (MDBs). However, any significant reduction of the MDB requests would leave the imbalance between security and development assistance as pronounced as before.

The FY 88 request also suffers from an imbalance among regions: half of all foreign aid resources--nearly $8 billion--would go primarily in the form of security aid to just five countries: Israel, Egypt, Turkey, Pakistan, and El Salvador. In contrast, 46 sub-Saharan African countries, including many of the world's least developed nations, would share a total of $899 million.

As we have pointed out over the years, security aid has become the cornerstone of the US foreign aid program. The tendency of this Administration to view the Third World primarily through the lens of East-West geopolitical conflict encourages the recipients of military aid also to emphasize this perspective and to neglect many of the more difficult issues related to long-term development. This misreading of Third World conflict and change--and its potential for corrupting not only our friends but ourselves--continues to pose several concerns for us as religious organizations.

First, the Administration's approach fails to address underlying social and economic problems and tends to overlook legitimate internal challenges growing out of long-standing grievances against unpopular governments. We have had two recent examples of this in Haiti and the Philippines; others may be in prospect. Military responses to such grievances may reinforce repressive, nondemocratic governments, work against genuine popular movements, perpetuate inequity and underdevelopment, and contribute to political instability.

Second, military aid may serve (and has served) to fuel local arms races, a result frequently ignored by a policy that focuses on East-West tensions. In many cases, the US has little real influence with the parties to the conflict or control over what subsequently becomes of weapons or other assistance it provides. Thus, US involvement may succeed only in making such conflicts more deadly. By destabilizing the Third World, military aid also heightens the possibility of clashes between the US and the Soviet Union. This danger already exists in the Middle East, where the US and the USSR have armed many of the parties to the conflicts.

Third, the availability of substantial sums for military aid on increasingly easy terms often encourages the buildup of military establishments that are unnecessary or undesirable and cannot be maintained without continued external support. Recent large increases in US military assistance, particularly grant military assistance, thus add to a relationship of dependency and increase strain on the US budget.

Fourth, the emphasis on military aid also diverts resources within US aid programs that might otherwise be available for development. This year, military aid add-ons would preempt the possibility of higher development assistance requests and are even more likely than in the past to force reductions in resources for development. In recipient countries, too, funds used for military expenditures are unavailable for more pressing needs. Strengthening the military establishment within a country may also bias internal decision-making in favor of larger military expenditures.

Economic Support Funds: As military aid has grown in recent years, so has ESF, an important function of which is to ease the financial difficulties of countries with which the US has close military ties. For example, for FY 88 the Administration is proposing that more than three quarters of all ESF go to just seven countries: Israel, Egypt, Pakistan, El Salvador, Turkey, the Philippines, and Honduras.

We are sometimes criticized for not supporting ESF funding--which is, after all, economic rather than military. However, according to the AID Congressional Presentation itself, less than 28 percent of proposed ESF for FY 88 is for development-type projects, and of that total nearly three quarters is for Egypt and Pakistan. Fully 64 percent of all ESF is proposed as cash transfers, again not allocated on the basis of congressionally mandated human needs criteria. We therefore support reductions in the ESF program as currently constituted and applaud the continuing efforts of some members of this committee to establish better accounting and reporting procedures for the use of ESF funds.

III. The Need to Strengthen US Multilateral Relations and Programs

We believe that, despite their imperfections, multilateral organizations are generally better vehicles than bilateral programs for US aid resources. US contributions leverage funds from other countries, amplifying their potential developmental impact, and multilateral aid is generally less politically oriented than bilateral aid.

We also hold, as a matter of principle, that the US should live up to its financial commitments to the various multilateral organizations and institutions to which it belongs. Where it has serious and legitimate policy concerns, the US should work for changes from within these organizations. We have been alarmed in recent years by congressional and Executive Branch actions that have unilaterally reduced US support for the United Nations and related international organizations and multilateral development banks (MDBs), undermining their ability to function effectively and, in some cases, threatening their very existence.

In keeping with this approach, we support the Administration's higher requests for the multilateral development banks in both the FY 87 supplemental and the FY 88 budget, which seek to restore some of the deep cuts the banks have received in recent years. In particular, we support authorization of the full US contribution to the 8th replenishment of the International Development Association (IDA), during which nearly half of IDA's resources will go to sub-Saharan Africa. At the same time, we raise several policy concerns in Section IV.

We believe that diplomatic and financial support for the United Nations should be restored.

We oppose Administration efforts to reduce or, in some cases, eliminate US voluntary contributions to a range of international organizations. The Administration's request for this group of organizations represents a 17 percent cut below the 1987 appropriation, and a 45 percent drop from the FY 85 level. We particularly urge Congress to revise upward Administration requests for the following agencies: UNICEF, which the Administration seeks to cut by 41 percent; the International Fund for Agricultural Development (IFAD), which the Administration would cut slightly when a minimal increase would complete US obligations to its second replenishment; the UN Development Fund for Women (UNIFEM) and the World Food Program, which the Administration eliminated from its request; and the UN Development Programme and the UN Environment Program, slated for significant new cuts on top of deep reductions in recent years. These agencies, which are making a significant contribution to international development efforts, deserve US support.

Assessed contributions to the UN and its specialized agencies have received even less favorable treatment in recent years. Under the Administration's FY 1988 proposal, included in the larger 150 account, this group of organizations would receive $310 million in FY 1988--an amount that falls considerably short of what the US was assessed under treaty obligations, due largely to congressional restrictions on the funds. It nonetheless represents an increase over contributions in FY 87, a year in which Congress cut the assessment roughly in half and compounded the damage by deferring one-third of that amount. In light of recent reforms at the UN, we support lifting the deferral, as proposed by the Administration in its FY 87 supplemental, restoring funds withheld from the UN regular budget along the lines of a recent Administration proposal, repealing or suspending the Kassebaum Amendment, and providing a FY 88 contribution that meets all past and present US obligations to the UN and the specialized agencies.

IV. Increasing the Effectiveness of Aid: Policy Issues on the Horizon

We believe the effectiveness of both multilateral and bilateral development assistance could be enhanced by policy changes in the following areas:

Structural adjustment and the poor: We believe that the US should be a progressive force for change in MDB policies with respect to structural adjustment lending and the poor. Specifically, we recommend that this committee adopt policy language requiring the Treasury Secretary to instruct the US Executive Director to the World Bank and IDA to work multilaterally to include provisions in structural adjustment programs to protect the poor from any negative impact of economic policy changes. Similarly, on a bilateral basis we urge that you require the Agency for International Development (AID to evaluate the extent to which supported policy reforms actually benefit the poor and to recommend measures that protect and compensate the poor where the opposite has been determined to be the case.

Aid to Africa: The Senate will be faced with two alternative proposals that would restructure bilateral development aid to Africa. One is contained in the Administration's budget proposal and the other is a congressional initiative likely to be introduced soon by Senators Simon and Kennedy (and similar to HR 1199, introduced recently in the House by Reps. Wolpe, Gilman, and Schneider). Both would replace the current functional account categories for Africa with a single more flexible fund for African development.

While Interfaith Action has not formally taken a position on either proposal, our preference at this point is for the general approach taken in HR 1199 due to its strong emphasis on local participation. Too often aid programs have been top down and have not taken into consideration local cultures or involved the intended beneficiaries in decision-making. We particularly support the call for AID missions to set up mechanisms for consultation with US and local private voluntary organizations and other groups.

We also draw your attention to two bills that would provide economic assistance to countries in Southern Africa. S 474--introduced by Senators Kennedy, Weicker, and Specter--would provide $100 million to the regional Southern Africa Coordination Conference (SADCC) in FY 87 supplemental funds and another $700 million in FY 88 to FY 92 for transportation, agriculture, industry, and manpower development. The other, HR 776--introduced in the House by Rep. Mickey Leland--is expected to be introduced in the Senate soon. It would provide $144 million in FY 87 supplemental funds for urgent humanitarian and developmental aid.

While we are aware that many interests will be competing for funds, especially in the FY 87 supplemental, we urge you to give priority to providing much needed assistance to southern Africa. Countries in the region are suffering a terrible human and economic toll because of the instability created by the policies and actions of the South African government.

Women in Development: We urge Congress to encourage both AID and the World Bank to strengthen efforts to support women's productive as well as reproductive roles. While policy documents acknowledge women's roles in developing country economies and the need to be supportive of them, all too frequently programs addressing women's development needs continue to be sidetracked into inconsequential components or simply absent from major programmatic efforts.

We believe that all programming, planning, and evaluation staff in both AID and the World Bank should be trained in developing strategies for involving women more centrally in the agencies' development activities. In many countries, women play major roles both as food producers and as entrepreneurs. Addressing their needs is essential to achieving project success and development progress.

Conclusion

It is our hope that the Senate will review this year's foreign aid requests with the longer-range interests of both the US and the developing countries in mind. We believe this can be best done by:

— Sharply reducing the security component of bilateral assistance;

-- Redirecting resources within the foreign aid program toward development aid, with an emphasis on aid to sub-Saharan Africa, where needs are especially great;

-- Strengthening US support for multilateral institutions and programs; and

-- Increasing the effectiveness of development aid by lifting the burden of economic adjustment from the poor, enhancing local participation, and supporting women's roles as producers.

In sum, we believe that Congress has a rare opportunity to fashion a foreign aid program that both satisfies the imperative of budgetary restraint and improves the effectiveness of foreign aid at the same time.

Thank you for your attention.

NOTE: Although the Union of American Hebrew Congregations believes that Congress should seek to redress the imbalance between development and security assistance, it does not concur in any proposal that would reduce levels of assistance to Israel.

FISCAL YEAR 1988 BUDGET REQUEST FOR FOREIGN AID
($ millions)

	A	B	C*	D	E*
	FY 81	FY 86 ACTUAL	FY 87 ESTIMATE	FY 87 & SUPPL./2	FY 88 REQUEST
Development Assistance					
Multilateral	1,224.3	1,403.7	1,186.6	1,479.4	2,012.7
Bilateral	2,278.8	2,470.5	2,529.8	2,638.7	2,638.2
PL 480	1,656.5	1,600.2	1,463.0	1,463.0	1,387.0
DEVELOPMENT TOTAL	5,159.6 (49.0%)	5,474.4 (36.0%)	5,179.4 (37.0%)	5,581.1 (36.8%)	6,037.9 (38.6%)
Security Assistance					
ESF	2,104.5	3,761.5	3,600.0/1	3,897.0	3,600.0
Military	3,184.8	5,797.3	4,996.4	5,457.4	5,807.0
SECURITY TOTAL	5,289.3 (50.2%)	9,558.8 (62.9%)	8,596.4 (61.4%)	9,354.4 (61.7%)	9,407.0 (60.1%)
OTHER	88.9 (.8%)	158.6 (1.0%)	225.4 (1.6%)	225.4 (1.5%)	210.0 (1.3%)
FOREIGN AID TOTAL	10,537.8	15,191.8	14,001.2	15,160.9	15,654.9

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* Comparisons between the FY 88 budget request and FY 87 are based on columns C and E.

(1) The Agency for International Development estimates that 27.4 percent of this aid will be provided as project assistance for development-type activities.

(2) Proposed FY 87 supplemental appropriation requiring congressional approval to become law.

PREPARED STATEMENT OF THOMAS A. DINE

Thank you, Mr. Chairman, for the opportunity to testify before this distinguished committee on behalf of aid to Israel. Appearing with me is Mr. Douglas Bloomfield, AIPAC's Legislative Director. The American Israel Public Affairs Committee (AIPAC) appreciates the opportunity to express its views on the proposed Foreign Assistance Act for FY 1988 and the importance of U.S.-Israel relations.

AIPAC is a domestic organization of American citizens who value a close and consistently strong partnership between our country and Israel. On our Executive Committee sit the presidents of the 40 major American Jewish organizations representing more than four and one-half million members throughout the United States.

The FY 1988 foreign assistance authorization request of the Administration reflects true needs for U.S. foreign policy. It addresses current circumstances in key global spots; it is fiscally responsible; it tries to redress some of the severe cuts in the 150 budget function over recent years. Economic and military aid serves our national interest--both at home and abroad.

The U.S. has a particular moral and strategic interest in Israel, the one democracy and our only reliable ally in the Middle East. It is the only country in the region with meaningful free elections, a robust free press, checks and balances to prevent and correct abuses of authority, extensive protections for the rights of individuals and minorities, basic equality for women, and other safeguards and rights that are typical of a free society. It stands in sharp contrast to other countries of the region, which include feudal monarchies like Saudi Arabia, where all power is permanently concentrated in the hands of a few wealthy princes and where average citizens are under constant surveillance by the religious police and internal security forces; dictatorships like Syria, where the government slaughtered 10,000 of its own citizens five years ago; or radical fundamentalist regimes like Iran, which terrorizes its minorities, suppresses its middle class, and ships off its youth to be slaughtered in a meaningless war.

In poll after poll for nearly 40 years, the American people have resoundingly reaffirmed their sympathy for the Jewish state and their conviction that Israel is a democratic ally whose security and well-being are vitally important to the United States. The absolute amount of our aid to Israel is substantial, but it is comparatively one of the most cost-effective investments that the United States makes in support of its common interests. U.S. expenditures in support of our European allies in NATO, for example, are more than 40 times the size of our aid to Israel. And we get a good return on our money to Israel.

Mr. Chairman, we are meeting at a time when the relationship between the United States and Israel is strong and close: there is a deep, broad-based partnership; a full-fledged political and military alliance is emerging.

Significantly, Mr. Chairman, we are partners for peace. In the search for peace with its neighbors, Israel's National Unity Government continues to build upon the bold initiatives taken last year in close coordination with the United States. This holds true following the smooth transfer of power in October from the Labor Party's Shimon Peres to the Likud's Yitzhak Shamir.

1986 witnessed several encouraging developments in this respect. July saw the historic public meeting between an Israeli Prime Minister and an Arab head of state for only the second time in the nearly four decade-old Arab-Israeli conflict. Prime Minister Peres' summit in Ifrane with Morocco's King Hassan II, then chairman of the Arab League summit conference and the

Islamic Conference Organization, demonstrated the willingness of Israel's leaders to go anywhere and discuss any proposal to resolve the conflict.

Soon thereafter, following Vice President Bush's mission to the region, Israel and Egypt announced the completion of a draft arbitral compromise to resolve the Taba border dispute. Israel's significant concessions to the Arab side on this matter facilitated the first summit ever between President Mubarak and an Israeli Prime Minister and led to the return of Egypt's ambassador to Israel following a four year absence.

It is Israel's policy--and hope--that these advances would create the necessary conditions for King Hussein to come to the negotiating table with Israel's leaders. Both Premier Peres and his successor, Yitzhak Shamir, have extended the hand of friendship to Hussein, repeatedly calling on him to enter direct negotiations without preconditions on the basis of United Nations Resolutions 242 and 338. In an effort to help meet the King's preconditions, the Government of Israel continues to seek a formula for international accompaniment to direct negotiations with Jordan and has declared its readiness to sit down with Palestinian participants who are not associated with terror. Peace has not, however, been pursued. The King has directly participated in repairing relations with his northern neighbor, Syria, the foremost rejectionist in the region. The King has cooled his contacts with the PLO's leadership, but has allowed the PLO to exercise a veto over his entering into direct negotiations with his western neighbor, Israel.

The Government of Israel in 1986 has continued to work closely with Secretary of State Shultz in adopting tangible measures to improve the quality of life for the inhabitants of the West Bank and Gaza--permitting the opening of an Arab bank in Nablus; granting increased numbers of family reunification permits; expanding the territories of 15 West Bank towns, and, most important, completing the return of the reins of municipal government to the local Arab inhabitants. The Israeli Government, in cooperation with the United States, is now pursuing a $500 million economic development plan for the territories.

And, despite the rejection of direct negotiations by each of Israel's Arab neighbors except Egypt, Foreign Minister Peres continues to seek ways to promote a peaceful environment through economic development under a multi-year, large-scale "Marshall Plan" for the Middle East. This plan's farsighted purpose is to help those Arab neighbors of Israel (Egypt, Jordan, Lebanon and Syria) who are now suffering seriously from the recession in the Arab world brought on by the collapse of oil prices, and thereby to create a regional environment more conducive to peaceful coexistence.

King Hussein, for his part, has sought to implement an ambitious, $1.4 billion development plan to upgrade the skills, abilities, and incomes of Palestinians in the territories in an effort to promote a moderate influence and leadership there more likely to engage in a peace process. This plan dovetails with the goals of the "Marshall Plan," and, coupled with the Israeli measures already in place, could serve as an essential building block for peace by nurturing a stable Palestinian leadership in the territories with a stake in coexistence with Israel.

Yet this fledgling process is in jeopardy: First, Saudi Arabia and Kuwait have actively moved to undercut King Hussein and bolster Arafat's PLO by donating $9.5 million and $5 million, respectively, to revive a committee dedicated to promoting PLO influence in the territories. Second, the plan itself suffers for lack of funds. Even though it is the brainchild of Secretary of State Shultz, the Administration has only requested $7 million in FY 1988; allocations over the last two years came to $19.5 million, largely as a result of Congressional initiatives. Taking their cue from Washington, the Europeans have been particularly reluctant to contribute serious money to the effort. Because this plan is critical to creating an environment conducive to peace in the territories, AIPAC strongly supports increased U.S. funding for the West Bank development plan and calls upon our European allies and Japan to contribute substantially as well.

But to achieve peace and maintain it requires strength, particularly in the Middle East where the forces of radicalism must be deterred. In this area, too, the United States and Israel are strategic allies.

This was best symbolized during last month's visit by Prime Minister Shamir to Washington with its special emphasis on Israel's status as a major non-NATO ally, along with Japan, South Korea, Australia, and Egypt. This Congressional provision, signed into law by President Reagan in the FY 1987 Defense Authorization bill late last year and recently reiterated in a letter to Chairman Pell by Secretary Shultz and another one from Secretary Weinberger to Chairman Nunn, will better enable the two nations to expand the scope of strategic cooperation. This is not an area of special benefits, grants or loans. Rather, it is a logical extension of the alliance which has blossomed since November 1983 when the United States and Israel enunciated the policy of expanding cooperation, particularly joint military planning and exercises, to meet threats to mutual interests in the Middle East and the eastern Mediterranean. Without the strong support of this Committee, this new area of law would not have been possible. I hope this year will see an expansion of this effort.

Israel has participated in joint naval exercises with the Sixth Fleet designed to strengthen U.S. antisubmarine warfare capabilities in the eastern part of the Mediterranean Sea. It has provided access to its ports for regular ship visits by the Sixth Fleet. Indeed, when the President ordered a naval task force to the region earlier this month, elements of that fleet, led by the carrier USS John F. Kennedy, called on the port at Haifa. During his recent visit, Prime Minister Shamir renewed Israel's offer for continued use of Haifa port by all U.S. Naval forces in the region.

It has made facilities available for the storage and maintenance of U.S. materiel for American use in a conflict. It has provided Kfir aircraft to the U.S. Navy's Aggressor Squadron and to the U.S. Marine Corps to help train American fighter pilots. It has provided access to bombing ranges in the Negev desert for training exercises for U.S. Navy fighter pilots. It has engaged in military training exchanges with the U.S. Marines. It has staged joint military exercises with American special anti-terrorist forces.

It has entered into formal arrangements to provide access to its sophisticated hospital facilities for U.S. military casualties in a conflict. These facilities have already been used to treat U.S. personnel injured in the bombing of the U.S. Embassy Annex in east Beirut and on several other occasions.

It has shared with the United States the lessons of its combat experience in Lebanon, where Israel successfully used American equipment against Soviet weapons. It has undertaken joint research and development projects with the Pentagon to build on the technological expertise acquired from decades of conflict.

It has signed a formal agreement with the United States to participate in the Strategic Defense Initiative and has already been awarded several small SDI contracts. Israel will be key to the successful development and deployment of an Anti Tactical Ballistic Missile (ATBM) system.

But Israel's role as an ally of the United States goes well beyond the confines of military cooperation in the Middle East.

Israel stood foursquare behind the United States in support of U.S. military actions against Libya in the spring of 1986, unlike Jordan and Saudi

Arabia, who condemned "the American aggression against Libya," or Egypt, who termed it "unacceptable."

At the United Nations, Israel voted with the United States on more than 91 percent of the General Assembly resolutions introduced in the 40th session, the highest rate of cooperation of any country in the world. And on the 10 annual "key" votes determined by the Administration, Israel voted with the United States all 10 times in 1985. This contrasts with 38 percent for Turkey, and 33 percent for Greece--America's NATO allies in the eastern Mediterranean. It also contrasts with 15 percent for Egypt, 14 percent for Jordan, and under 14 percent for Saudi Arabia--and the Soviet Union's 12.2 percent record.

In the information war, Israel has initialed an agreement with the United States to install a Voice of America transmitter in the Negev desert to enhance American broadcasts to Soviet Central Asia, Afghanistan, and Eastern Europe, this despite the inherent risk of worsening the plight of Soviet Jews. By contrast, two of America's NATO allies, Greece and Turkey, refused to host the VOA transmitter because of their unwillingness to endanger their relations with Moscow. Reportedly, Oman also turned down an American request.

Moreover, at a time when American exports are meeting protectionist trade barriers erected by our closest allies and trading partners, Israel signed the historic Free Trade Area agreement, making it the only country in the world to abolish virtually all trade barriers with the United States.

And so, Mr. Chairman, in the peace process, in strategic cooperation, in the diplomatic arena, and on the trade front, Israel is today one of our foremost partners in the world, working with the United States toward regional and global security.

Israel and the United States have also cooperated over the past two years in another bold initiative. Working together, they have successfully undertaken to rescue Israel's economy from the severe distress it was suffering just 18 months ago.

Israel has demonstrated how U.S. foreign assistance, in combination with strong and well-conceived corrective measures in the economy, can turn economic distress into an opportunity for recovery. Those who questioned the large injection of economic aid warned it could prevent Israel from instituting tough austerity measures which inevitably could not be avoided. Israel's experience clearly challenged this notion. U.S. assistance to Israel has made a concrete difference in Israel's struggle to regain economic stability, and has been accompanied by some of the toughest austerity measures ever imposed by a democracy in a compressed period of time. The battle is far from over, but a good beginning has been made.

Less than two years ago, Israel was hemorrhaging economically. Years of shouldering the enormous defense burden imposed by Arab hostility, and the accumulated result of the dependence on imported raw materials and fuel for Israel's industry--to say nothing of the continuing cost of absorbing waves of destitute immigrants and providing them with the full range of social welfare services--had led to extensive borrowing and a huge foreign debt. Foreign reserves plummeted below $3 billion to the perilous "red line" of $2 billion. At the same time, inflation was raging at 450 percent per year, and in one month reached an annual rate of 800 percent. The government was running a deficit equivalent to 17 percent of the Gross National Product.

Then something unusual happened. Within Israel, the many parties and different schools of thought pulled together, and decided that the higher national interest required them to put aside their differences and work in a united fashion for national economic recovery. Equally important, the Government of the United States, and particularly Secretary of State George

Shultz and the U.S. Congress, stepped forward and in the spirit of a true ally, offered the hand of assistance in a time of trouble.

At this time last year, we reported to you on the economic plan implemented by Israel aimed at curbing runaway inflation, reducing the budget deficit, bringing the foreign exchange crisis under control, and starting the nation back on the path to economic growth. The major elements of the austerity program were severe and painful, but necessary, and included a wage and price freeze, a suspension of monthly cost-of-living adjustments, a reduction in government subsidies to basic commodities that especially strained those in the lower income brackets, major cuts in the government budget, a 19 percent devaluation of the shekel, and a freeze on government hiring.

These measures led to one of the most rapid reductions in standards of living ever imposed on a free people by their democratic government. The government imposed wage freezes that cut the purchasing power of workers by 15 percent, and reduced government spending by 2 percent. But while earnings declined, the cost of living rose, according to the plan.

Israelis were forced to pay user fees for health services and for educating their children. Each family had to pay $60 per child enrolled in kindergarten through high school. Subsidies on basic commodities like bread, milk, chicken and electricity were cut. The tax rates paid by Israelis were still among the highest in the world. And, the Government of Israel instituted a tax on the elderly's pensions.

This terrible "scissor" of incomes rapidly going down while the cost of living went up, cut deeply into the living standards and quality of life of the people of Israel. But they joined their government in recognizing the necessity to "bite the bullet" to rescue the economy and get back on the path to economic growth.

But the Congress, the people, and the President of the United States were partners in this process also, because another critical ingredient of the recovery program is U.S. economic assistance. U.S. aid provided the critical "safety net" to stop the decline of foreign reserves and restore confidence in Israel's economy. This in turn prevented a crisis in which Israel would have become more dependent on high-interest rate, short-term borrowing in the international financial market. Aid made it possible to bring Israel's international financial position back under control.

U.S. aid was also essential to prevent massive unemployment from overwhelming the economic recovery program, which might have destroyed public support for the steps required for recovery. Israel's unemployment has, unfortunately, increased to very high levels--at one point even reaching 8.3 percent, but the trend would have been worse still without U.S. assistance.

U.S. assistance bought Israel the time to implement the necessary structural changes in its economy. It has been a critical and indispensable ingredient--perhaps the most significant factor--in the progress made by the Government of Israel in restoring economic health. Happily, I can report today the impressive results of the stabilization plan. Israel's foreign reserves have risen above $4 billion, from the dangerously low $2 billion mark. The inflation rate has also improved dramatically from 450 percent in 1985 to 19.7 percent in 1986, actually reaching zero or a negative rate during several months. While that rate is high, it is a long way from the triple-digit numbers of two years ago.

The government's budget deficit was running at about 17 percent of the Gross National Product before the plan was implemented; it has now fallen to about 3 percent of GNP. Israel's current account was in deficit by $1.4 billion; the year ended with a current account surplus of $500 million. Due to reductions in the budget deficit, the Bank of Israel printing press did not need to issue a single additional shekel during the first year and a half of the economic program.

But much remains to be done. As Prime Minister Shamir declared, "Restoring economic health is the raison d'etre of this government." At the urging of the Secretary of State and the economic advisory panel he assembled, Israel has turned its focus to economic growth. Toward this end, the government announced the second phase of the economic program aimed at creating the necessary conditions for growth and expansion.

Following the leadership and advice of the United States, phase two consists of a wide range of measures directed at reducing government involvement in, and regulation of, the economy. Just as there has been tax reform in the United States, Israel has cut its marginal tax rates, lowering the top income tax bracket from 60 percent to 48 percent (with some exceptions), raising the zero income bracket, and reducing the overall number of brackets. Israel has begun to implement capital market reform measures intended to limit government control of, and involvement in, the capital market and to free up capital for much needed private investment. To relieve the burden on exporters, the shekel was devalued by 10 percent. Out of a continued commitment to budget restraint, and despite the difficulties inherent to any effort to cut the budget in a democracy familiar to budget-watchers in Washington, the Government of Israel trimmed an additional $244 million from its budget. The government also negotiated a reduction in the cost of living adjustment for wage earners and cut subsidies.

Israel is not out of the woods yet. In 1986, real wages, consumption expenditure and imports increased. But Secretary Shultz expressed the shared sentiments of Israel and the United States during Prime Minister Shamir's talks here when he said:

> We agreed a strong economy is no less important than a strong defense, and that Israel needs to redouble its efforts in this area to prosper and to ultimately reduce dependence on foreign aid.

The United States has a vital interest in Israel's economic recovery for several reasons. First, the economic health of our major allies and fellow democracies is inherently a vital interest for the United States, because in a very profound sense, the free nations stand or fall together. Second, the economy of Israel is the bedrock of the nation's ability to sustain its own defense, and for this reason Israel's economic health is essential to the stability of the region. And third, it is a vital interest of the United States to ensure that Israel continue on the path of economic growth and self reliance. This is something we can do, and for our own interest, must do.

The challenge for the United States, and for this Committee, as we look to the year ahead, is to continue a program that is working, and to take the steps that are necessary to reinforce and indeed accelerate the recovery to which the United States has already contributed so much. The foreign assistance program before you is truly an investment in Israel's future.

Beyond the challenge of economic recovery, the program before you is essential for a second reason. This is the fact that our assistance to Israel over the coming year will have a critical impact on the security of the Jewish state.

Last year we painted a bleak picture describing the erosion in Israel's margin of security, that resulted to a great degree from the very financial and budgetary austerity measures that were necessary to rescue Israel's economy. Regrettably, that picture still captures the essence of the situation. Indeed, current economic plans call for the continuance of defense budget cuts into the 1990s.

The austerity measures cut Israel's defense spending by about 20 percent in a two year period--one of the largest reductions ever imposed by a democracy in so brief a timespan. While Israeli military planners have attempted to make the cuts without eroding Israel's narrow margin of safety, reductions of this magnitude have, inevitably, added to the element of risk in many areas. As Defense Minister Rabin put it,

> The large cuts that have been made in the last few years have exposed us to serious risks. If this should continue, it will damage the defense of the state in the near and distant future.

(1) Active combat units have been disbanded, reduced in size or converted into reserve formations. This has decreased the number and size of army brigades and air force squadrons available to meet a surprise attack. This has weakened the basis on which Israel's security has rested since the conclusion of the 1973 Yom Kippur War.

(2) At least one of Israel's mechanized/armored divisions has been dissolved. This means a serious decline in Israel's visible deterrent capability as well as a decline in its war-fighting ability.

(3) Training has been significantly reduced. There have been serious cuts in the number of flying hours allowed aircraft pilots, ground forces training has been limited, and the expenditure of ammunition in training has been curtailed. For example, Israeli pilots now are able to fly fewer training hours than their American or Jordanian counterparts.

(4) Reserve readiness has been cut. The number of reserve days served by Israeli soldiers remains at last year's low levels. Reserve units will continue to be less prepared for war than they were two years ago.

(5) Thousands of active duty military personnel have been released. This has meant the loss of a great many highly-skilled individuals who will be sorely missed by the Israeli armed forces.

(6) Morale has been lowered. Pay cuts and personnel releases have produced an exodus of highly trained and motivated professionals and have lowered morale generally. It threatens to undermine a key aspect of Israel's military superiority--its large qualitative advantage in personnel.

(7) Ammunition and equipment stockpiles have suffered deep cuts. This has reduced Israel's ability to sustain its forces in combat. Stocks expended during the Lebanon war have not been replaced, and in order to further reduce expenses, the armed forces have continued to draw down their stockpiles without full replacement.

(8) Many programs, such as continued acquisition of new Merkava tanks, have been slowed or postponed.

(9) Naval building programs have continued to be delayed.

(10) Expenditures on research and development have been significantly curtailed. This has diminished Israel's ability to develop and produce the unique new weapons and countermeasures needed to counter increasingly sophisticated weapons entering Arab arsenals. This further diminishes Israel's qualitative advantage over its opponents. The Israeli defense industries have reduced their staffs and plant facilities and thus are less able to support Israel's military needs.

These cuts in Israel's defense budget have made American FMS aid to Israel all the more important. This money has helped in the upgrading of Israel's Air Force, whose margin of superiority over its adversaries remains the cornerstone of Israel's security doctrine. In particular, these funds support the acquisition of Lavi ground attack aircraft and F-16 fighters. We specifically wish to thank the Committee and the Congress for earmarking funds for procurement of defense items in Israel.

Another key program that will be funded through the FMS account is the upgrading of Israel's Navy, which must confront the colossal growth of hostile Arab navies like that of Syria, which has nearly doubled its number of combat vessels since 1982; Saudi Arabia, which has added 17 new guided missile warships since the beginning of the decade; and Iraq, which has added five guided missile warships since 1980, with six more on order.

Despite reductions in oil revenues, Israel's enemies continue to purchase more and newer weapons to add to their already bulging arsenals. They have placed orders for billions of dollars worth of new weapons each year, and have tens of billions of dollars more still in the pipeline from past years. Since 1973, the leading Arab nations still at war with Israel have spent nearly $400 billion on their armed forces, and are continuing to spend at an annual rate of $30 billion. According to the last set of figures released by the United States Arms Control and Disarmament Agency, five of the seven largest arms importing nations in the world are Arab nations at war with Israel: Iraq, Saudi Arabia, Libya, Syria, and Jordan. And, it may be significant that despite its economic problems, Egypt was the fourth largest importer, ordering in 1987 some $1.3 billion worth of American weapons alone.

Syria has made major efforts to expand and improve its armed forces since its defeats in the 1982 fighting. All branches of Syria's military have grown as a result. Syria's president, Hafiz Assad, has made very clear that he is preparing for war. Indeed, according to one estimate, the Syrians devote half their national budget to the armed forces, spending $1 billion more than Israel each year. As part of that buildup Syria has increased by 50% the number of divisions in its army. These troops have been reequipped with the latest model tanks, artillery, and other equipment available to the Syrians. The Syrians studied carefully the fighting in Lebanon in 1982 and have incorporated lessons from that campaign into their doctrine and training.

Syria's navy has also been a major beneficiary of this buildup, seeing its number of combat vessels nearly double in the years since the Lebanon war as well as the addition of previously unavailable capabilities. These new capabilities include Syria's first two submarines and a new coastal defense missile, the Sepal, with a range of about 180 miles.

Syrian air defense and air forces have also benefitted in this expansion. The losses of 1982 have been made good and then some; and more advanced types of anti-aircraft missiles and aircraft have entered service. New anti-aircraft systems have included the SA-5, SA-11, SA-13, and SA-14 missiles. Syrian pilots have spent the last year being trained in the Soviet Union on one of its most advanced fighters, the MiG-29, which is expected to begin arriving in Syria soon.

The Syrians have also acquired Soviet-built SS-21 tactical ballistic missiles, another piece of first-line equipment for Soviet forces facing NATO. These missiles are much more accurate and dangerous than the earlier Soviet-built Frog and Scud tactical missiles in the Syrian armory. The accuracy of these new missiles increase Syria's 'first-strike' attack abilities against key Israeli installations including air bases and mobilization points.

Jordan too has continued its defense buildup. The Jordanians have placed orders to increase inventories of tanks, artillery, anti-aircraft systems, vehicles, air-to-air missiles, and other munitions. According to the United States Arms Control and Disarmament Agency, Jordan, a country with a gross national product of $4.3 billion (1983) took delivery of over $3 billion in arms in the two-year period between 1981 and 1983.

A key part of Jordan's military buildup plan appears to focus around increasing its air defense capability through the acquisition of advanced fighter aircraft and mobilization of its batteries of Improved Hawk anti-aircraft missiles. If Jordan succeeds in its search for this capability, then it will be in a position to directly threaten Israel's margin of air superiority.

Since 1980, Iraq, which has sent forces to fight Israel in three wars, has more than tripled the size of its armed forces. Indeed, since the beginning of this decade, Iraq has become the world's leading arms importer, taking delivery of weapons worth an average of over $3 billion every year. Regardless of the outcome of the Gulf War, as both opponents have sworn Israel as an enemy, it can be expected that the enormous arsenal accumulated in Iraq will be at least in part available for use against Israel, as it has been in the past.

Despite steep reductions in oil revenues, Saudi Arabia continues to order weapons on a grand scale. It leads the Arab states in military expenditures, this year spending over $18 billion on its military, a sum equal to more than 75% of Israel's entire GNP. In each of the years 1981-1983, it was the world's second largest importer of arms. Current Saudi military expenditures per regular soldier are almost twice American expenditures (approximately $262,000 to $136,000). And, as Saudi Defense Minister Prince Sultan made clear in a recent Washington Post report, the focus of this military buildup is Israel, not Iran or the Soviet Army in Afghanistan. Therefore, not only does it seek to acquire military capabilities far beyond its own legitimate defense needs, it continues to fund Syrian and Jordanian arms purchases and PLO terrorist activities against Israel.

As part of this huge ongoing military buildup, Saudi Arabia has been seeking steadily to increase the size and combat capabilities of its air force. An important aspect of this particular effort has been the Saudi attempt to enhance the fighting qualities of the combat aircraft it has acquired from the United States. In this it has been partially successful, to the detriment of Israel's security. The sale of further American aircraft enhancements to Saudi Arabia cannot but lessen the opportunity for Israel to expend its resources on projects more productive for its society than on countering an ever-extending range of Arab military power.

Mr. Chairman, the Arabs purchase these arms from dozens of different nations around the globe. Our country has been a major supplier to these nations, selling scores of billions of dollars of military goods and services to avowed enemies of Israel. American sales of new weapons systems to hostile Arab nations have had a particularly profound impact on the military balance between Israel and those states because American technology is often superior to that of competing weapons. These sales have significantly raised the cost to Israel of maintaining its own defenses, exacerbating the strain on Israel's economy, and barring any changes in American policy, will continue to do so in the future.

The past year has also revealed a new dimension of the threat to Israel: chemical weapons. Both Syria and Iraq have developed their abilities to the point where they are manufacturing their own deadly chemical weapons, and in the case of Iraq, have used them on numerous occasions in its war against Iran. The realization of what was earlier an approaching threat has forced Israel to take in its turn precautionary steps to protect its population and soldiers, again at further cost to itself.

Overall, what we have is a pattern of accelerated Arab buildup while Israel substantially cuts its forces. The effort to maintain the qualitative edge adds to the burden on the Israeli economy, further worsening the quantitative gap in the Arab states' favor.

Mr. Chairman, we are all proud of Israel's achievements, but realistically it is impossible to have this combination of trends without a diminution of security. Israel's margin of safety is, inevitably, reduced by the austerity measures it is forced to take.

And so I come before you to ask that you take these very serious risks into account when you consider the level of aid to Israel for FY 1988. What this Committee does will have a very real and direct impact on Israel's security, in a situation where there is much less room for error. Moreover, any reduction in aid will send the wrong signal to Israel's enemies.

Let me sum up, Mr. Chairman, the conclusions of my testimony. Our aid to Israel has been a wise investment, because Israel is our one democratic friend and most reliable ally in a critical region of the world. But this year, aid to Israel is particularly important, for two reasons. First, to prevent any further erosion in Israel's narrow margin of security, in a situation where its forces have been cut while those of its adversaries are rapidly growing.

The second reason aid is particularly important this year is to stay the course on the economic recovery and growth program on which Israel has embarked. This is no time to reduce our effort.

AIPAC understands, however, the budget constraints operating in Washington. For this reason, I commend the Committee for seeking to authorize the full amounts contained in the President's request and for communicating this to the Budget Committee. Israel is also aware of America's budget constraints and thus has not increased its aid request and is seeking ways to promote economic independence. Indeed, last year the Government of Israel, acting as a responsible partner in the foreign aid process, returned a check for $51.6 million to the U.S. Treasury despite its economic pressures.

Mr. Chairman, I thank you for the strong friendship you and this Committee, and the Senate, have demonstrated toward Israel, and for this opportunity to explain the importance of FY 1988 aid to Israel and to America.

PREPARED STATEMENT OF ANDREW E. MANATOS

There have been some striking new developments regarding Cyprus, Greece, and Turkey since this Committee last considered a foreign aid bill. The developments fall under the general headings of:

1. A great increase in efforts to thwart Congressional intent on this issue by some parts of the Administration.

2. Turkey has taken more aggressive action against settlement of the Cyprus situation.

3. Dramatic improvements in Greek public opinion toward and relations with the United States.

Since we do not have much time today, I will try to provide you with an outline for each of the above mentioned categories.

I. Administration Efforts to Thwart Congressional Intent

- Last week, Secretary of Defense, Caspar Weinberger, ignored the word of the law, spirit of the law, and Congressional intent when he described Turkey's recent transfer of American M-47 tanks to Cyprus as legal. He said," the stationing of that equipment on Cyprus is not a violation of any of our laws. The use of that equipment would be."

- Last year, during the consideration of Cypriot, Turkish, and Greek aid by the Appropriations Committee, the State Department wrote a Senator on that Committee, who had inquired about reports of Turkish increases of troops and armaments in Cyprus. In that letter, the State Department clearly led the Senator to believe that the reports were untrue. After the Senate completed action on the bill, an Associated Press story indicated that the Administration was aware of the increase in both troops and the qualitative changes in their armaments on Cyprus.

- Twice in 1986, President Reagan attempted to ignore the letter of the law and Congressional intent, as he tried to utilize section 614 of the Foreign Assistance Act of 1961, in order to keep from giving $12 million of aid earmarked for Cyprus. He claimed the withholding of such aid is "vital to the national security interests of the United States."

- The Administration is interpreting some language which they wrote that was contained in last year's Continuing Resolution as authorizing them to switch for Turkey nearly $100 million in military aid grants for nearly $100 million in military aid loans. Conferees involved in that legislation indicate that they did not intend for Turkey to receive that much of a grant increase.

II. Turkey on Cyprus

- On January 16, 1987, it was reported that the U.N. Secretary General asked the Turks to withdraw from their recent occupation of two hotels in Cyprus located in the Varosha (Famagusta) area. This area was being left unsettled following the invasion as an indication of the ultimate withdrawal of Turkish troops.

- Today, estimates of Turkish troops on Cyprus are close to 25,000. In 1985, State Department estimates were at approximately 18,000.

- In the last year, Turkey has substantially increased its armaments in the occupied area of Cyprus.

- Turkey has accelerated its settlement program on Cyprus, bringing in Turkish citizens at a rate of nearly 55 people a day.

- In March 1986, Turkey printed a map in an international magazine showing all of Cyprus as part of Turkey.

- Turkey has changed its description of why they are on Cyprus. They no longer promise, as they did for years, that they would withdraw their troops from the island. They now ignore the fact that not one Turkish Cypriot died or was injured in the years prior to the invasion of Cyprus by Turkish troops, and suggest instead that their troops must remain on the island to keep their people from becoming endangered.

- It became public in 1986 that Turkey spent in that year alone $120 million in its own foreign aid to the illegal state on Cyprus, approximately $200 million to maintain its troops on Cyprus, nearly a million dollars a year on lobbying in Washington, and announced a $10 million fund for world wide public relations.

- Turkish aggression is extending to the Greek islands. In May 1986, former Turkish Prime Minister Ulusu said, "Sooner or later we shall be obliged to break out of the noose formed by the (Greek) Islands which suffocating surround Turkey." The next day Turkish Prime Minister Ozal publically alluded to war with Greece.

III. Improvement of Greek Public Opinion Toward the United States

- In 1984, a poll in Greece found that 55% of the people of that country thought that American foreign policy was a threat to their country. In 1986, only 23% perceived U.S. policy as a threat to their country. More than half of those who saw our policy as threatening to them have changed their minds. Actions by the Senate Foreign Relations Committee in 1984 contributed greatly to that improvement.

- All American officials visiting Greece and commenting on Greece have indicated during the last two years that relations between our two countries have substantially improved.

Mr. Chairman, I would strongly urge that the Senate Foreign Relations Committee consider doing the following things this year:

- Send a clear message to the Administration and to Turkey by the adoption of language which will very clearly prohibit American arms sent to Turkey from being transferred to Turkey's occupation army on Cyprus.

- Withhold a significant portion of American aid to Turkey until it withdraws its troops from Cyprus.

- Keep the 10 to 7 ratio so that the delicate balance of power in the Eastern Mediterranean is not upset and American interests remain well protected.

- Keep sending signals to the people of Greece that we do not intend to be a threat to their country. This can be done by maintaining the concessionary interest rates for Greece and providing Greece with parity with Turkey in terms of grant aid as well. The Senate adopted this provision last year in a bill that came out of the Senate Appropriations Committee. A repeat of that action by the Senate and subsequent adoption by the House, would be seen as a very positive signal by the people of Greece and would also contribute to a balance of power in the Eastern Mediterranean.

- Maintain last year's $15 million in foreign aid to the Republic of Cyprus as a signal to the people of Cyprus that we regret the circumstances our arms have brought to their country and that we deeply appreciate their assistance to us during terrorist crises.

The Senate Foreign Relations Committee has been diligent in its attention to American foreign policy in the Eastern Mediterranean. I am confident that the Committee will again assert itself in 1987 and not allow the Administration to ignore the law and Congressional intent, nor will it allow Turkey to use American aid aggressively.

PREPARED STATEMENT OF LAWRENCE E. BRUCE, JR.

Thank you Mr. Chairman, for the opportunity to submit testimony to the Senate Foreign Relations Committee on the progress of UNICEF and the Child Survival and Development Revolution this past year. I appreciate also the opportunity to comment upon the valuable work of several other international organizations receiving voluntary contributions from the United States, such as the United Nations Development Programme (UNDP), the United Nations Environment Programme (UNEP), and the International Fund for Agricultural Development (IFAD), which work closely with UNICEF in the field.

Mr. Chairman, the United States Committee for UNICEF, chaired by Hugh Downs, is now celebrating its 40th Anniversary, having been established in 1947 the first of now 33 national citizen organizations in industrialized countries. The U.S. Committee's mission is to inform and educate the American people and our government regarding the work of the Children's Fund and the special needs of children worldwide, as well as to raise funds to address those needs. The U. S. Committee for UNICEF is supported by an extensive national volunteer network which is involved each year in the collection of donations, the sale of UNICEF greeting cards, the Trick or Treat campaign, and other fundraising activities. They represent a large part of the American constituency for UNICEF and it is their message that I bring to you today.

CHILD SURVIVAL AND DEVELOPMENT REVOLUTION:

A Progress Report.

Mr. Chairman, approximately four years ago, as most of the world was caught in the throes of an economic recession, UNICEF launched the Child Survival and Development Revolution (CSDR) as an alternative low-cost and cost-effective means of preserving child health and promoting child development. UNICEF, the World Bank, the United Nations Development Program (UNDP), and the World Health Organization (WHO) formed the Child Survival Task Force to map out a strategy for world-wide implementation of the CSDR. That strategy and its accompanying goals were based on the recognition of several basic common denominators. First, that most infant and child deaths have a limited number of causes. Diarrhoeal dehydration and six vaccine preventable diseases: (measles, tetanus, whooping cough, polio, diphtheria, and tuberculosis) were identified as preventable causes of child death. Second, scientific advances make prevention of these killers possible at low financial cost. Third, these life-saving methods work by entrusting knowledge of their effectiveness to parents and enabling parents to protect their children's health, not leaving them dependent on doctors they will rarely see at distant, expensive hospitals they will never reach. And fourth, new, under-used, or growing mass communication vehicles make possible education of all parents. This four-part strategy could save countless lives within 10-15 years--making major worldwide progress achievable by 1990. A statistic so staggering--40,000 child deaths each day from preventable disease and dehydration--demanded and still commands our attention. Over these four years we have learned that low-cost interventions can indeed cut these tragic deaths in half by 1990. Four interventions form the "GOBI" program which, advanced by the new communications capacity, is the leading weapon of this Revolution.

GOBI is the acronym of the life saving techniques of Growth monitoring, Oral rehydration therapy, Breast-feeding, and Immunization. The two principal components of this program, immunization and oral rehydration therapy (the administration of a 10 cent solution of salt, sugar, and water), have already saved over four million lives in these past five years. In 1986 alone, over one and one half million young lives were spared death or disability through the application of these simple low-cost methods. The momentum and the social mobilization generated by the Child Survival and Development Revolution have rendered attainable what appeared to be distant targets just a few years ago, provided the progress of the past four years can be sustained.

For example:

In the Dominican Republic, the 20,000 volunteers who have given oral polio vaccine to 95 percent of the nation's children have taken on the more demanding task of measles and DPT injections.

In Brazil, 80 percent of children are now protected against measles and 67 percent against DPT, with the help of the volunteers who since 1980 have virtually eliminated polio in the country (from 20,000 cases per year to about 40).

In Nigeria, against great odds, the government is determined to immunize 80 percent of the nations's children by setting up immunization posts in the market-place and schools, mosques and chapels, and explaining the importance of immunization via traditional chiefs and religious leaders, politicians and schoolteachers, traditional entertainers and radio messages, press advertisements and house-to-house visits.

The Case of El Salvador

Mr. Chairman, over 80 countries are now implementing expanded programs for immunization. However, the case of war-torn El Salvador continues to be special indeed. As we have reported in recent years, El Salvador has overcome great odds in order to protect its children from the ravages of disease. Beginning in 1985, at the request of President Duarte, UNICEF, the Pan American Health Organization, the International Red Cross, AID, the Boy Scouts, and the Catholic Church have conducted a country-wide vaccination campaign during negotiated truce "days of tranquility." For three years now cease-fires have been called and honored by all parties to enable the immunization of the country's children by health personnel. (As you know, full immunization requires a series of innoculations thus the three de facto truce days approximately one month apart.) By the end of the first year of innoculation, nearly 300,000 of El Salvador's 400,000 children had been vaccinated against five deadly diseases. Before the campaign began the immunization rate for El Salvador's children against these five diseases was 40 percent. At that time more Salvadoran children died from these readily preventable diseases in a single year than the total of all deaths from the civil war and assasinations. And just this past February 1st, the country began a third annual round of these "days of tranquility." The goal during this year is to raise the rate of immunization from the 70 percent achieved last year to 80 percent.

Mr. Chairman, these impressive results would not be possible without the leadership of the Congress and the support of the American people. The volunteers across this country who support the work of UNICEF have expressed their thanks to many

Members on both sides of the aisle for acting in the last days of the 99th Congress to increase the Child Survival Fund to $75 million, with $50 million of that earmarked for immunization and oral rehydration activities. Congress also has taken courageous steps to maintain the level of UNICEF's funding despite enormous fiscal pressures. We express our thanks to you Mr. Chairman, for your own personal efforts on behalf of the world's children.

The Congress and the American people are joined in their support for UNICEF by the people and Governments of many other nations such as Finland, Italy, Japan, Canada, Switzerland, and the Netherlands which have either maintained or increased their level of contributions to UNICEF in recent years to support the Child Survival and Development Revolution. Moreover, in the past year, through global special events initiated by UNICEF (such as "Sport Aid" for Africa, which was undertaken last spring in partnership with Britain's Bob Geldof and BandAid, and the "First Earth Run" which this past fall celebrated UNICEF's 40th Anniversary through a round-the-world torch relay), the people of the developing countries have contributed funds to UNICEF to a degree previously assumed impossible. Millions of dollars were raised in countries as disperse -- and themselves poor -- as India, Nigeria and Brazil, for the benefit of UNICEF's emergency rehabilitation efforts in Africa and worldwide child survival programs.

But clearly, Mr. Chairman, the leadership of the Congress -- which helped initiate the Child Survival Revolution and the momentum of support which it has gained, has directly saved over one million young lives in the past year and over four million since the CSDR was launched five years ago. Such success gives us definitive proof that we have the means, affordable means, to save 20,000 young lives per day! We have proof that the goal undertaken by UNICEF five years ago to cut in half by the end of the century the number of children who die each day largely from preventable diseases can be attained.

Mr. Chairman, I believe that such proof has added a new moral and ethical dimension to the deliberations of all governments appropriately concerned with the "bottom line." I hope and urge that, as in past years, Congress will include this moral variable in the political equation.

Children in Exceptionally Difficult Circumstances

Mr. Chairman, UNICEF's Executive Board prompted especially by leadership among the Western nations, has increasingly called upon the organization to become more involved in the protection and development of children in especially difficult circumstances. As a complement to ongoing UNICEF activities, a greater priority of attention is now being devoted to abandoned children and "street children", and UNICEF is taking a more active role in advocating increased attention to children and women in armed conflicts through promotion of "zones of peace" or "corridors of peace" on behalf of children in such areas. The El Salvador experience, which I described earlier, is perhaps the most dramatic example of what UNICEF can do to protect children who suffer the double jeopardy of poverty and hostilities. Less dramatic interventions have occurred or are being developed -- Uganda, the Sudan, Sri Lanka, Afghanistan, and elsewhere.

We recognize that given the nature of these complex problems and the type of efforts required, UNICEF can only provide limited direct support. It is our intention to promote greater awareness of the needs of children in especially difficult circumstances and, selectively, to support innovative and precedent-setting local opportunities.

Children on the Front Line

In this same vein of drawing attention to and attempting to relieve the plight of children in especially difficult circumstances, UNICEF recently released the first part of a study which it had commissioned on the situation of children in southern Africa, Children on the Front Line. While this study was originally intended for internal purposes only to guide UNICEF's own planning, Canadian Ambassador to the United Nations Stephen Lewis, who has led the donor countries' efforts to address critical situations in Africa, asked UNICEF to publish the results of the study.

The report highlights the situation in the nine countries of the Southern African Development Coordination Conference (SADCC)--Angola, Botswana, Lesotho, Malawi, Mozambique, Swaziland, Tanzania, Zambia, and Zimbabwe. But the study particularly discovered that the children of violence-ravaged Angola and Mozambique have been affected to a degree not previously recognized, and so severely that their infant mortality rates have risen to the highest in the world, surpassing even those of war-torn Afghanistan, which UNICEF had previously identified as the world's worst.

Today more than 360 children under the age of five will die as a result of war and economic destabilization in Angola and Mozambique. Last year 140,000 small children died from these causes. They died not as a result of gunfire, but of preventable disease and malnutrition. The warfare in these countries has claimed non-military targets. In the case of Mozambique, over 700 health facilities have been destroyed since 1981, depriving at least two million people of the most basic health care. With medical facilities destroyed, health workers killed, maimed and kidnapped, and vaccination programs in many areas suspended, the mortality rate, particularly for under-fives, has increased dramatically. Children on the Front Line identifies action urgently needed -- immediate emergency help and longer-term support which UNICEF is already mobilizing.

First, basic health services -- especially in rural areas -- need to be restored, sustained, and strengthened. Immunization, antenatal care, the monitoring of child growth and health, the supply of basic drugs, and the provision of oral rehydration therapy are more important than ever. Second, family food security -- already eroded by drought and poverty as well as by war -- must be restored. For infants and children, one approach is to distribute supplementary foods to virtually all children for low-income or vulnerable households at clinics, schools or other distribution points.

Third, access to pure water -- both to reduce the incidence of water-borne diseases and to reduce the burden on women having to walk long distances to fetch water--remain central to reducing infant and child deaths. Health facilities, food, and pure water are the essential elements in any strategy for sustaining the lives of the hundreds of thousands of children at risk of death in the present southern African context.

The Role of Women

Mr. Chairman, as you know, UNICEF's program is based largely upon empowering parents, particularly women with the knowledge of the Child Survival and Development Revolution. Women will play a crucial role in the achievement of UNICEF's global goals for reducing infant and child mortality and morbidity rates. Therefore, UNICEF has been increasing its support to programs that yield direct social, health, and economic benefits to women living in poverty--for their own well-being. This is in recognition that improvement of women's lives is a necessary prerequisite for social development and for the well-being of children.

Many millions of the world's mothers are permanently in poor health. To take one indicative example, almost half of the women in the developing world are anaemic. Among pregnant women, that figure approaches 70 percent. Usually, the cause of this is not a specific illness; rather it is a general condition termed 'maternal depletion.' Maternal depletion is caused by too much work and too little food combined with too many pregnancies too close together. A remedy for this condition is education and literacy. Over the next three to four years UNICEF will give increased support to female education. In addition, the dimension of women in all aspects of UNICEF's general program will be subject to increased attention.

Safe Water and Basic Sanitation

Many of the deaths that UNICEF, UNDP, and other organizations are seeking to prevent are caused by water-borne diseases and lack of sanitation. UNICEF supports projects in this crucial area and continues to devote priority attention to them. UNICEF's expenditure for water supply projects has remained at approximately 21 percent of all program outlays.

Nevertheless, large areas of the developing world are still without access to safe water even for drinking purposes, and hundreds of millions of households do not have ready access to suitable water supplies. An even larger number of families -- over half -- do not have minimally satisfactory sanitation facilities. It is estimated that only one fourth of the total global needs for water supply are being met, and far less than that in terms of sanitation. Household water supply and improved sanitation, therefore, remain basic requirements to meet the minimum standards of good health. Furthermore, recent experience suggests that there are many promising opportunities to link the organization's long-standing concern for drinking water with new approaches to social mobilization and health education, including personal hygiene and sanitation.

During the next three years, therefore, UNICEF will maintain a strong level of financial support for water supply and sanitation programs. In implementing these programs, greater attention will be given to low-cost replicability, longer service life through better maintenance and management and the child-health impact. All water supply and sanitation programs will be closely linked with programs of management and control of diarrhoeal diseases (CDD) as well as with other elements of Primary Health Care.

Adjustment With a Human Face

Mr. Chairman, in recent years UNICEF has been involved in the examination of the impact of recession and economic "adjustment policies" on children, as well as on the poorest families. During the last two years, UNICEF has increasingly focused on specific ways in which economic adjustment policies can be broadened to give more attention to protecting children and other vulnerable groups. It has become evident that adjustment policies adopted in many countries have involved drastic and counter-productive cuts in income, social services, and living standards, which are having serious consequences, especially for children already living in poverty. *UNICEF plans to further develop and promote "adjustment policies with a human face," working closely with international financial institutions, including the World Bank and the International Monetary Fund*, as well as other international and national partners in selected countries. We are especially pleased by indications within the past year, by Jacques de Larosiere, the just-retired Managing Director of the International Monetary Fund, and Barber Conable, the new President of the World Bank, that the leadership of those institutions appreciates these people-oriented concerns. A special UNICEF study, which will be available by mid-1987, analyses how alternative adjustment strategies can be directed to protecting children and other vulnerable groups.

International Cooperation for Children

Mr. Chairman, I have devoted the lion's share of my comments here today on the activities of UNICEF. However, I would like to emphasize in closing that the accomplishments to which I refer are the result of extensive collaboration of many international governmental and non-governmental organizations.

Indeed, a major by-product of the Child Survival and Development Revolution has been the unprecedented and growing commitment to international cooperation for child health and survival. UNICEF has worked closely with several agencies of the United Nations system, including WHO, UNEP, IFAD, UNDP and the World Bank, as well as with international NGOs such as the International Paediatrics Association (IPA), the World Federation of Public Health Associations, the League of Red Cross and Red Crescent Societies, the Catholic Church and Rotary International in support of global, regional, and national efforts for CSD. Other partners include the bilateral aid agencies of Canada, Denmark, France, Italy, Norway, Sweden, and the United States, religious organizations, foundations, and regional organizations such as EEC.

These most valuable organizations, particularly UNDP, UNEP, and IFAD, which depend on voluntary contributions as UNICEF does, deserve great support in the Congress for their contribution to social and economic development in many of the communities where the lives of children hang in the balance.

Among bilateral agencies, the United States Agency for International Development (USAID) has established a Child

Survival Action Program and has adopted child survival as its thrust in health programs. The Government of Italy has been the principal contributor to efforts to achieve UCI in 26 countries in Africa. The Government of Canada has supported child survival programs and UCI efforts through its Commonwealth Fund and a special fund for francophone countries in Africa, as well as significantly increasing allocations to child survival in its regular bilateral programs.

Conclusion

Mr. Chairman, the decisive actions of the Congress over the past several years to preserve the level of the voluntary contribution to UNICEF, to establish and subsequently increase the funding level of the Child Survival Fund, and to earmark funds for vitamin A programs, have meant life for millions of children. Neither UNICEF nor any of the other private or public organizations involved in the child survival effort could have accomplished so much without the direct support of the Congress.

As one who speaks on behalf of an American constituency, one of thousands of volunteers, I hope that I have communicated to you today the gratitude of that constituency for your leadership.

I know that the Committee, once again, faces some truly difficult choices on the reauthorization of the foreign aid bill for FY 1988-89. However, I hope that the Committee will consider again, as it has in the past, the tremendous accomplishments of organizations like UNICEF, UNDP, UNEP, IFAD, and others in making life possible and bearable for millions in the developing world.

In light of the accomplishments I have touched upon today, I urge the Committee to:

1. Maintain the authorization for UNICEF at a level which will support at least a slight increase in its appropriation for FY 1988.
2. Protect the authorization level of the international organizations and programs receiving voluntary contributions from the United States, particularly UNDP, UNEP, and IFAD.
3. Protect the authorization level of the Child Survival Fund currently at $75 million.

Thank you, Mr. Chairman, I would be happy to answer your questions.

IS CHINA'S BIRTH CONTROL PROGRAM STILL COERCIVE?

John S. Aird
Former Senior Research Specialist on China
at the U. S. Bureau of the Census

Recently some foreign defenders of China's family planning program have alleged that the Chinese Government has significantly modified program requirements and curbed the more aggressive tactics of family planning cadres since the spring of 1984.[1] The implication is that the program is becoming much less coercive and that U. S. funding for the United Nations Fund for Population Activities (UNFPA), withheld since 1985 because of the UNFPA's support of the Chinese program, can now be resumed.

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[1] See Marshall Green, "Is China Easing Up on Birth Control?" The New York Times, April 28, 1986; and Susan Greenhalgh, "Chinese Abortions: Point's Been Made So Now Ease Off," The Wall Street Journal, July 3, 1986. The author submitted responses to both newspapers refuting the misleading allegations in these articles, but the newspapers declined to publish the refutations.

However, this conclusion is strongly contradicted by the evidence from China, which shows that family planning demands have been eased only very slightly, that sterilization of couples with two or more children, abortion for all unauthorized pregnancies, and the absolute prohibition of third births remain in effect, and that the program has been getting stricter again since the fall of 1985. The coercion issue is still very much alive.

To understand what has been happening in the Chinese birth control program in the last two years, it is necessary to review briefly the history of birth control policies in China and especially those from 1979 through 1983, when the program reached a peak of coerciveness under orders from the Chinese Communist Party Central Committee and the State Council.

Evolution of the Chinese Birth Control Program

The first campaign

The People's Republic of China (PRC) was a late convert to the idea that population growth needed to be controlled. When the new government was established in 1949, Mao Zedong asserted confidently that population growth would never be a problem for China because the productivity of the masses after revolution would be almost unlimited.[2] Birth control was denounced as "anti-humanitarian" and as a way of "killing off the Chinese people without shedding blood."[3] But when the first census of the PRC, taken in 1953-54, counted a population total about 100 million larger than the official figure used previously, the Party Central Committee began to worry about overpopulation. By 1955, Mao had realized that a large population might not be an unqualified advantage.[4] In 1956, he became concerned about shortages of grain to feed the growing population.[5] In 1957, he reportedly warned that uncontrolled population growth could lead to the "extinction" of the Chinese people and that the human race was procreating "in a state of total anarchy."[6] As Mao's anxieties rose, birth control efforts intensified. Somewhat tentative steps to encourage the practice of birth control began in 1953, but in August 1956 the Ministry of Public Health issued a directive requiring local health agencies to institute an active promotional program, and thereafter a major propaganda campaign was waged.[7]

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[2] "The Bankruptcy of the Idealist Conception of History," September 16, 1949, Selected Works of Mao Zedong, Vol. 4, Foreign Languages Press, Beijing, 1961, pp. 453-454.

[3] Sun Jingzhi, "Suqing dilixue zhong de chong Mei sixiang" ("Eliminate the Worship-America Ideology in the Field of Geography"), Renmin ribao (People's Daily) (RMRB), Beijing, August 2, 1952, April 25, 1952; and E. Stuart Kirby, "China's Population Problem," Far Eastern Economic Review, Vol. XXIV, No. 17, April 24, 1958, p. 613.

[4] Mao Zedong, "On the Cooperativization of Agriculture," XINHUA, Beijing, October 16, 1955, American Consulate General, Hong Kong, Current Background, No. 364, October 19, 1955, p. 8.

Although the authorities maintained that birth control was a response to "the universal demand of the masses,"[8] the program encountered strong popular resistance, especially in the rural areas. The authorities angrily denounced the "feudal mentality," "outworn and erroneous thinking," "suspicions and doubts," and "stupid ideas" of the reluctant masses.[9] They said that the "conservative tendency" among the people was a "social problem" that "must be solved by...applying the force of society,"[10] that birth control was not a "private affair" but a matter of importance for the national welfare and therefore an "affair of the state,"[11] and that because the "prosperity of the nation" and the "happiness of the people" were involved, "the Party and the Government cannot help interfering" in birth control matters.[12]

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[5] Yu Rongpei, "Mao Zedong shehuixue sixiang yanjiu" ("Research on Mao Zedong's Thoughts on Sociology"), Shehui kexue zhanxian (Social Sciences Front), No. 1, January 25, 1983, p. 240.

[6] Mao's remarks about "extinction" were cited in Kong Xiwu, "Jianyi zhaokai jieyu gongzuo huiyi" ("Birth Control Work Conference Proposed"), Heilongjiang ribao (Heilongjiang Daily) (HLJRB), Harbin, June 11, 1957. His comment about "anarchy" in human reproduction was made in a speech at the enlarged plenary session of the Eighth Party Central Committee on October 9, 1957; see Selected Works of Mao Zedong, Vol. V, p. 488.

[7] "Weishengbu fachu guanyu biyun gongzuo zhishi" ("The Ministry of Public Health Issues a Directive Concerning Contraceptive Work"), Guangming ribao (Clarte Daily) (GMRB), Beijing, August 13, 1956.

[8] "Shao Lizi on Contraception at Hangzhou," Hangzhou ribao (Hangzhou Daily), Hangzhou, December 21, 1956, American Consulate General, Hong Kong, Survey of China Mainland Press (SCMP) No. 1458, January 25, 1957, p. 7; "Shandong Provincial People's Council Directive on Scientific Contraception," Dazhong ribao (Dazhong Daily) (DZRB), Jinan, February 14, 1957, SCMP No. 1487, March 12, 1957, p. 13; "Exercise Appropriate Birth Control," (editorial), RMRB, March 5, 1957, SCMP, 1487, March 12, 1957, p. 6; Yuan Anzhuan and Yang Zhenguo, "Duo fangmian luli dadao jiezhi shengyu de mudi" ("Many-Sided Efforts to Achieve the Objective of Birth Control"), RMRB, March 24, 1957; and Wang Zuo and Dai Yuanzhen, "Criticism and Appraisal of the 'New Theory of Population'," Jingji yanjiu (Economic Research) (JJYJ), No. 2, February 17, 1958, American Consulate General, Hong Kong, Extracts from China Mainland Magazines, No. 128, May 12, 1958, p. 7.

[9] "Shandong Provincial People's Council Directive on Scientific Contraception," loc. cit.; "Shi weishengju zhaokai jieyu zuotanhui jueding jiaqiang biyun de xuanquan he zhidao" ("Municipal Public Health Bureau Holds Birth Control Symposium and Decides to Strengthen Contraceptive Propaganda and Guidance"), Chichihaer ribao (Chichihaer Daily), Chichihaer, March 26, 1957; "Jieyu xuanquan xuyao guangfan jinxing" ("Birth Control Propaganda

In spite of continuing insistence that birth control was "not to be forced on anybody," that it should not be promoted by "pressure and demands," that "acts of compulsion must be avoided," and that coercive tactics "will not be tolerated,"[13] the pressures on the local cadres to achieve results induced them to put pressure on the masses to conform, as it had during previous mass campaigns, such as land reform and collectivization. In some cities, women factory workers were required to write out "birth plans" and pledge that they would not have another child during the

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Needs to Be Carried Out Extensively"), Xin Hunan bao (New Hunan Daily) (XHNB), Changsha, March 17, 1957; "Shenru kaichan biyun xuanquan gongzuo" ("Carry Out Contraceptive Propaganda Work Thoroughly"), Haerbin ribao (Harbin Daily), Harbin, March 19, 1957; "Kaizhan woguo renkou wenti de taolun" ("Begin the Discussion of Our Country's Population Problems"), Wenhui bao (Wenhui Daily) (WHB), Shanghai April 27, 1957; Wang Yizhi, "Women shi zheyang kaizhan biyun xuanquan de" ("How We Carried Out Propaganda on Contraception"), Xinhua ribao (New China Daily) (XHRB), Nanjing, February 15, 1958; and "Further Develop Birth Control in Rural Areas," GMRB, May 20, 1958, SCMP No. 1830, August 12, 1958, p. 7.

[10] "For Active Dissemination of Contraceptive Knowledge," (editorial), GMRB, August 6, 1956, SCMP, No. 1352, August 17, 1956, pp. 2-4.

[11] "For Active Dissemination of Contraceptive Knowledge," loc. cit.; "Jieyu xuanquan yao zai nongzun guangfan shenrudi kaizhan" ("Birth Control Propaganda Should Be Carried Out Extensively and Deeply in the Rural Areas"), XHNB, August 12, 1957; and "Jiji xuanquan yu kaizhan jieyu gongzuo" ("Publicize and Carry Out Birth Conbtrol Work Actively"), HLJRB, June 6, 1957.

[12] "Further Develop Birth Control Work in Rural Areas," GMRB, May 20, 1958, SCMP No. 1830, August 12, 1958, p. 7.

[13] Sun Jingxia, "Present Problems in the Work of Propaganda on Contraception and Its Technical Guidance," GMRB, December 9, 1956, SCMP No. 1452, January 17, 1957, p. 9; Lu Shutian, "Renzhen zuo hao biyun gongzuo" ("Conscientiously Do a Good Job of Contraception"), HLJRB, January 7, 1957; "Shandong Provincial People's Council Directive on Contraception," loc. cit.; "Zhonggong Liaoning shengwei Liaoning sheng remin weiyuanhui guanyu jiji kaizhan jizhi shengyu gongzuo de lianhe tongzhi" ("Joint Notice of the Liaoning Provincial Party Committee and the Liaoning People's Committee Concerning the Active Carrying Out of Birth Control"), Liaoning ribao (Liaoning Daily) (LNRB), Shenyang, June 9, 1958; and "Exercise Appropriate Birth Control," loc. cit.

next five-year plan period, and those who refused were denounced in wall posters.[14] Such measures reportedly led people to believe that birth control was "compulsory."[15] Thus the discrepancy between official claims and actual practice in regard to coercion that has been so conspicuous in the family planning campaign of the 1970s and 1980s was already apparent in the 1950s.

The Big Leap Forward

In 1958, Mao reverted to his earlier idea that China's masses, fired by revolutionary enthusiasm, could produce far more than they consumed. He argued that in both agriculture and industry "miracles" of production were possible. "The more people," he said, "the more views and suggestions, and the more intense the fervor and the greater the energy." Even the poverty of China's people was a "good thing" because it made them more revolutionary and eager to change things.[16] Political inspiration could lead to a sudden advance in national economic development on all fronts, Mao believed, and the advances could be renewed year after year. He called for three years of all-out efforts to produce a "Big Leap Forward" all across the land. He also demanded that statisticians compiling figures on output forswear cold objectivity and produce statistics that would inspire the masses to greater feats of production. The result was an exercise in statistical fabrication that seemed to confirm Mao's belief in miracles. Food grain figures showed that grain production had more than a doubled during the year, and there were extreme increases in industrial production as well. Birth control was neglected.

The illusions of the Leap did not last long. By the end of 1959, food shortages were occurring in various areas. They were followed in the next two years by widespread famine and undernutrition that caused an estimated 30 million above-normal deaths in China.[17] In 1962, when the famine was over, the promotion of birth control was quietly resumed.

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[14] "Contraception and Planned Childbirth Must Be Practiced," WHB, January 23, 1958, SCMP, No. 1721, February 28, 1958, p. 7.

[15] "Dali kaizhan jieyu gongzuo zengqiang minzi jiankang he fanrong" ("Carry Out Birth Control Work with Great Effort to Improve the Health and Prosperity of the Nation"), LNRB, June 9, 1958.

[16] "Chairman Mao's Article for Red Flag," XINHUA-English, Beijing, May 31, 1958, SCMP, No. 1784, June 4, 1958, p. 9.

The second campaign

As in the first campaign, there was considerable popular resistance to birth control during the 1960s. Chinese sources convey the impression that promotional tactics were generally less aggressive during the second campaign, except for efforts to increase the average age of marriage for young people. Nevertheless, the authorities reiterated their position that having children was "not altogether a personal matter" because the State had to supply the food, clothing, housing, education, transportation, and employment for the children as they grew up.[18] Fertility levels in urban areas began to fall during the early 1960s but rural fertility did not, as the 1982 fertility survey data have shown.[19] According to official figures, the national birth rate reached a peak in 1963 and did not decline much during the remainder of the decade.

The second campaign was disrupted in 1966 when Mao launched his Great Proletarian Cultural Revolution in an effort to regain full control of the Party organization by expelling those of his colleagues whom he thought had attempted to limit his powers and pervert his revolution after the disaster of the Leap Forward. The Cultural Revolution paralysed the civil control apparatus and substituted a kind of mob rule by "revolutionary" youth groups, who rampaged at will around the countryside taking revenge on Mao's suppose enemies, and soon fell to feuding among themselves, creating such turmoil that Mao could only bring it under control with the help of the military. When order was finally restored in 1968, the third birth control campaign began.

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[17] See the interview with Judith Banister reported in Stephens Broening, "The Death of 30 Million Chinese," The Baltimore Sun, April 26, 1984, p. A19; Ansley J. Coale, Rapid Population Change in China, 1952-1982, Committee on Population and Demography, Report No. 27, National Academy Press, Washington, D. C., 1984, pp. 68-70; and Basil Ashton, Kenneth Hill, Alan Piazza, and Robin Zeitz, "Famine in China, 1958-61," Population and Development Review, Vol. 10, No. 4, December 1984, p. 614.

[18] Bo Ling, "If There Is No Birth Control..," Yangzheng wanbao, Guangzhou, August 21, 1963; Zhong Chohuan, "This Is Not an Embarrassing Thing or an Unimportant Matter," Nanfang ribao (Southern Daily) (NFRB), Guangzhou, December 1, 1963, SCMP, No. 3128, December 20, 1963, p. 12; and Fu Lianzhang, "The Positive Significance of Planned Family," Zhongguo funu (Women of China), No. 4, April 1, 1963, American Consulate General, Hong Kong, Survey of China Mainland Magazines, No. 364, May 13, 1963, p. 38.

[19] Analysis on China's One-per-Thousand-Population Fertility Sampling Survey, China Population Information Centre, Beijing, 1984, pp. 159-167.

The third campaign

At the start, the new campaign required local authorities to "grasp tightly the work of planned parenthood"[20] and made the struggle for birth control part of the "class struggle." Popular opposition was attributed to the "class enemy."[21] Local cadres were told that family planning was essential for "socialist revolution and socialist construction" and that it was also in accord with "the fundamental interests of the masses."[22] Although, as before, the authorities sometimes warned against the use of coercive tactics,[23] they also demanded results beyond what could be achieved by a voluntary birth control program. Target figures for birth and natural increase rates were handed down from higher levels and a three-child limit on family size adopted early in the 1970s was replaced by a two-child limit in 1977. Those units that achieved their assigned targets were labelled "progressive"; their leaders were praised and promoted. Other units were criticized as "backward" and told to "strengthen their leadership" over planned parenthood work.[24]

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[20] "Go Quickly into Action to Carry Out the Patriotic Public Health Movement with the Elimination of the Four Pests as Key," WHB, April 21, 1968, SCMP, No. 4179, May 16, 1968, p. 8.

[21] "Stem the Evil Wind of Falling in Love and Getting Married Early Among Literary and Art Circles," WHB, July 28, 1968, SCMP, No. 4250, September 4, 1968, p. 17; "Firmly Destroying Old Habits, Insisting on Late Marriage," RMRB, August 31, 1969, SCMP, No. 4495, September 15, 1969, p. 5; Jilin Medical College Revolutionary Committee, Chiyao yisheng peixun jiaocai (Teaching Materials for the Fostering and Training of Barefoot Doctors), Renmin Weisheng Chubanshe, Beijing, 1971, pp. 352-355; and "Do a Serious Job in the Work of Family Planning," NFRB, December 7, 1973, SCMP (Supplement), No. 333, January 21, 1973, pp. 25-26.

[22] For example, see NFRB Commentator, "Seriously Do a Good Job of Family Planning Work," NFRB, July 10, 1973, SCMP Supplement, No. 325, October 1, 1973, p. 42.

[23] For example, Ibid. p. 43.

In response to the campaign, China's natural increase rate as compiled from provincial reports dropped sharply from almost 26 per thousand population in 1970 to 12.6 in 1976. Encouraged by this trend, the then Party Chairman, Hua Guofeng, announced at the Fifth National People's Congress in February 1978 that all areas should strive to lower China's population growth rate to less than one percent within three years.[25] But the coerciveness of domestic administration in China during the last years of the Maoist regime had produced a strong negative reaction among the people, and in the summer of 1978 the Party leaders instituted a formal effort to check the more extreme forms of coercion in all aspects of policy implementation, including birth control. Practices that had been encouraged or at least tolerated in prior years were specifically denounced. Soon the local family planning cadres, stung by these criticisms, became discouraged and stopped enforcing family planning policies. Meanwhile, in 1977 and 1978, China's natural increase rate levelled off at about 12 per thousand, and it became obvious that Hua's goal could not be attained in 1980 as hoped. Therefore, early in 1979 the central authorities abandoned the anti-coercion efforts and adopted a policy of limiting all couples to one child.

The one-child policy

The new limitation was extremely unpopular, because it meant that henceforth about half of all Chinese families whose first and only child was a daughter would have no one to look after them in old age, since, by Chinese custom, a girl marries into the family of her husband and is no longer responsible for her own parents. Immediately the practice of female infanticide, which had been common in China before 1949 but had virtually disappeared early in the 1950s, was revived in some parts of the country.

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[24] For example, a provincial conference in Shandong Province in October 1973 was told that "the masses must be fully mobilized" and that "all appropriate measures [for planned parenthood] must be carried out without fail." Backward units were to be quickly transformed into advanced units. See Jinan radio, Shandong Provincial Service, October 7, 1973, Foreign Broadcast Information Service, Daily Report, China (FBIS), No. 198, October 12, 1973, p. C7.

[25] Hua Guofeng, "Report on the Work of the Government," February 26, 1978, XINHUA-English, Beijing, March 6, 1978.

At first the Chinese authorities tended to dismiss the problem, but beginning in November 1982, the media, obviously reflecting official concerns, issued a cry of alarm. One newspaper warned that if infanticide were not stopped at once a serious imbalance between the sexes would occur, with the result that in 20 years time "a large number of young men will be without spouses."[26] Others described in gruesome detail how the infanticides were being carried out.[27] Reports from various localities indicated disproportionate numbers of male births. County figures as high as 139 male births per 100 female births, commune figures of up to 175 males per 100 females, and brigade ratios as high as 800 males per 100 females were reported from several areas.[28] When the foreign press began to repeat what the Chinese media were saying about the upsurge in female infanticide and its connection with the one-child policy, Chinese sources began to deny the seriousness of the problem. For example, the Minister in Charge of the State Family Planning Commission (SFPC), Qian Xinzhong, argued that the one-child policy was not the cause of female infanticide in China because that was a problem that had existed long before, ignoring the fact that the practice had been in abeyance for 30 years and reappeared only in response to the one-child limit.

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[26] "Jiujiu nuying" ("Save the Baby Girls"), Zhongguo qingnian bao (China Youth Gazette) (ZGQNB), Beijing, November 9, 1982, p. 3.

[27] "Zong nan qing nu shahai qingsheng nuying qinggong Wan Chuwen panxing shisannian" ("Young Worker Wan Chuwen Sentenced to 13 Years in Prison for Murdering His Own Infant Daughter"), GMRB, January 12, 1983, p. 1; Su Zhongheng and Zhang Bowen, "Yanjin nibi nuying" ("Strictly Prohibit the Killing of Girl Babies"), NFRB, February 7, 1983, p. 2; "Female Infanticide Evokes Danger of Sexes Imbalance," China Daily (CD), April 9, 1983, p. 3; "Jiangsu Yancheng fasheng duoqi yiqi nuying shijian" ("Cases of Abandoning of Girl Babies Occur Frequently in Yancheng of Jiangsu Province"), GMRB, January 12, 1983, p. 1; Xu Jialiang, "Yumei Zaocheng de beiju" ("A Tragedy Caused by Ignorance"), ZGQNB, February 5, 1983, p. 2; and Zhang Wansong et al., "Yinger xingbili shitiao yao qieshi jiuzheng" ("Effective Steps Must Be Taken Against the Disproportion in the Sex Ratio at Birth"), Shehui (Society), April 20, 1983, p. 29.

[28] "Investigation Conducted by Anhui Women's Federation Shows the Seriousness of the Situation of Drowning Baby Girls in Rural Areas and the Resulting Disproportion Between Male and Female Babies," RMRB, April 7, 1983, FBIS, No. 68, April 7, 1983, pp. K5-6; Jiang Chen and Xiao Du, "Yiqi canhai nuying shi fanzui xingwei" ("The Abandoning and Injuring of Girl Babies Is a Criminal Act"), RMRB, January 31, 1983, p. 3; Su and Zhang, loc. cit.; and Pu Yun, "Ling ren buan de shuzi" ("Disturbing Figures"), Gansu ribao (Gansu Daily), Lanzhou, January 19, 1983, p. 4. The normal sex ratio at birth for European and Asian populations is 105 to 107 male births per 100 female births. Higher ratios suggest that some female births are not being reported. In China a large proportion of the unreported female infants are presumably victims of infanticide.

At the start of 1979, when the one-child policy was being instituted, several measures denounced as coercive in 1978 were once again approved.[29] The cadres in Sichuan Province, criticized for their coercive practices in 1978, were told that, far from "overdoing things" in 1978, they had not done enough,[30] and Guangdong Province told its cadres that "any policy that is advantageous to planned parenthood must be carried out."[31] In April 1979, a high level conference of Party and Government leaders in Beijing put forward the goal of controlling the national population total to less than 1.2 billion by the year 2000. This goal was officially adopted by Hua Guofeng in September 1980.[32] In June, Hua told the Second Session of the Fifth National People's Congress that "This year we must do everything we can to lower the country's population growth rate to about 10 per thousand" and added that by 1985 the rate should drop to 5 per thousand.[33] Shortly afterward, Vice-Premier Chen Muhua repeated Hua's demand and announced a further goal of getting the natural increase rate down to zero by the year 2000.[34]

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[29] Zhengzhou radio, Henan Provincial Service, May 3, 1979, FBIS, No. 91, May 9, 1979, p. F3; and Guangzhou radio, Guangdong Provincial Service, May 9, 1979, FBIS, No. 92, May 10, 1979, p. P1.

[30] Michael Parks, "Sex Is High on List of New Chinese Freedoms," The Baltimore Sun, January 25, 1979; and Liu Haiquan, "Control Population Growth with the Same Drive Used in Grasping Production and Construction," GMRB, September 13, 1979, JPRS, No. 74694, December 13, 1979, p. 68.

[31] "Zhonggong Guangdong shengwei fachu jinji tongzhi liji xingdong zhua hao jihua shengyu gongzuo" ("The Chinese Communist Party Guangdong Provincial Committee Issues an Urgent Notice for Immediate Action to Carry Out Family Planning Work Well"), NFRB, July 22, 1979, p. 1.

[32] See "The Future Policies Decided by the Central Work Conference Are Policies on Economic Readjustment and Not Contraction," Ming Pao, Hong Kong, June 15, 1979, FBIS, No. 119, June 19, 1979, p. L14; and XINHUA-English, Beijing, September 7, 1980, FBIS, No. 175, September 8, 1980, p. L10.

[33] Hua Guofeng, "Report on the Work of the Government," June 18, 1979, XINHUA-English, Beijing, June 25, 1979, FBIS, No. 128 (Supplement), July 2, 1979, p. 19.

Meanwhile, soon after the start of the year, individual Chinese provinces began to adopt provincial family planning laws making family planning a legal requirement for all couples and imposing severe financial penalties on those who had unauthorized second or higher order births. The provincial laws, which had to be submitted to the SFPC for prior clearance, differed only in detail and were obviously based on a national draft law that has never been formally adopted or made public. By November 1979, 27 of the 29 provincial level units in China has passed such laws.[35]

The year 1979 also saw a marked escalation in demands for family planning achievements and a hardening of the official attitude toward those who dared to resist. In August, Chen Muhua asserted that if the family planning program posed a conflict between the interests of the individual and those of the State, the individual's interests should be subordinated.[36] Tianjin Municipality said that in the last three months of the year the practice of bearing more than one child was to be "stopped in the main" and that beginning with the first quarter of 1980 "nobody should bear more than one child,"[37] Guangdong Province announced that beginning in January 1980 "no one in the province is allowed to have a third child,"[38] and other provinces took similar steps to stiffen their demands and increase the pressure on the cadres to get results. There was an increased emphasis on the use of "remedial measures" (i.e., mandatory abortions) for unauthorized pregnancies.[39] Although the central authorities did not explicitly rescind all previous admonitions against coercion, their silence on the subject and the escalation of demands sent a clear signal to lower levels as to what was expected of them.

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[34] Beijing radio, Domestic Service, July 5, 1979, FBIS, No. 134, July 11, 1979, p. L25.

[35] XINHUA, Beijing, December 22, 1979, FBIS, No. 251, December 28, 1979, p. L7.

[36] Chen Muhua, "Shixian sige xiandaihua bixu you jihuade kengzhi renkou zengzhang" ("For the Realization of the Four Modernizations There Must Be Planned Control of Population Gorwth"), RMRB, August 11, 1979, p. 2.

[37] Tianjin radio, Tianjin City Service, August 4, 1979, FBIS, No. 153, August 7, 1979, p. R4.

[38] Guangzhou radio, Guangdong Provincial Service, August 24, 1979, Joint Publications Research Service (JPRS), No. 74196, September 18, 1979, p. 59.

The coercive family planning tactics of 1979 again alienated the masses. Therefore a second anti-coercion campaign was initiated in February 1980 and continued until the summer of 1981, this time focussed specifically on coercion in family planning. The family planning cadres were warned that coercive measures "can only bring damage to our work"[40] and told to put more emphasis on "meticulous ideological work" and persuasion, improve their "workstyle," be "fair and reasonable," and avoid methods that were "divorced from the masses."[41]

Once again, some cadres took the warnings against coercion as a signal to ease the pressures on birth control work, which promptly began to lag. Hopeful rumors began to circulate that the one-child policy was about to be abandoned.[42] Soon an upsurge of births was being reported in much of the country. The upsurge was partly due to the relaxation of birth control work, but it owed even more to two changes in official policy that had occurred at the same time. One was the passage of a new Marriage Law in September 1980, which invalidated local administrative restrictions on age at marriage, permitting young people to marry three or four years earlier than had previously been allowed. The result was a tidal wave of marriages, followed at once by a wave of first births.

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[39] For example, Fujian Province boasted that in May and June 1979 the number of abortions in the province had doubled over the same period in 1978, and Henan Province claimed that in the first half of 1979 abortions increased by 30.6 percent over the number in the first half of 1978. See Fuzhou radio, Fujian Provincial Service, August 18, 1979, FBIS, No. 163, August 21, 1979, p. O3; and Zhengzhou radio, Henan Provincial Service, August 25, 1979, FBIS, No. 169, August 29, 1979. p. P1.

[40] Xu Dixin, "A Few Problems Concerning Population Science," JJYJ, No. 4, April 20, 1981, FBIS, No. 101, May 27, 1981, p. K23.

[41] "Xian Jihua shengyu gongzuo zhong de liangge wenti" ("Two Problems in the Family Planning Work of Xian"), RMRB, February 1, 1980, p. 4; "Shaguan diqu jihua shengyu gongzuo chengji xianzhu" ("Family Planning Work in Shaoguan Prefecture Has Gained Outstanding Results"), NFRB, June 21, 1980, p. 1; "Dui wosheng jihua shengyu gongzuo di jidian xiwang" ("A Few Expectations About Planned Parenthood Work in Guangdong"), NFRB, October 6, 1980, p. 1; Hefei radio, Anhui Provincial Service, June 10, 1980, FBIS, No. 114, June 11, 1980, p. O1; XINHUA-English, Beijing, September 29, 1980, p. L23; XINHUA, Beijing, October 14, 1980, FBIS, No. 202, October 16, 1980, p. L4; Commentator, "Take Practical Action to Implement the 'Open Letter'," Sichuan ribao (Sichuan Daily) (SCRB), Chengdu, October 17, 1980, FBIS, No. 216, November 5, 1980, p. Q4; "Sustained Efforts Are Needed in Planned Parenthood Work," RMRB, January 27, 1981, FBIS, No. 28, February 11, 1981, p. L20; and "Excerpts of Speeches by NPC Deputies at Panel Discussions," RMRB, September 12, 1980, FBIS, No. 184, September 18, 1980, p. L13.

The second policy change was the institution of the "responsibility system" in agriculture, which virtually dissolved the collective farming operations under the communes and allowed individual peasant families to farm sections of commune land under contract, remanding an agreed proportion of their crops to the collective, and selling or consuming the rest at their own discretion. The intent was to arouse the peasants' "enthusiasm for production," and in that respect the policy was quite successful, but it also meant that the local cadres could no longer maintain direct daily surveillance over the peasants, which made it harder to enforce family planning restrictions. The cadres in many areas again threw up their hands and stopped enforcing the policies.[43]

By the second half of 1981, the central authorities, foreseeing a deluge of births, declared that population growth was "out of control" in many areas, that a new "baby boom" was imminent, and that a "population explosion threatened to wipe out all the family planning achievements of the

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[42] For example, see Shijiazhuang radio, Hebei Provincial Service, June 30, 1980, FBIS, No. 135, July 11, 1980, p. R2.

[43] Some areas reported a rise in second births also. According to one report, "the loudspeakers are silent, the [Party] secretaries are mute, and babies are being born." See "Renda daibiao fayan yaoqiu jihua shengyu ying lifa" ("Deputies to the National People's Congress Demand That a Family Planning Law Be Enacted"), _Jiankang bao_ (_Health Gazette_) (_JKB_), December 13, 1981, p. 1.

1970s."[44] Concern about coercion had once again been replaced by concern about population growth. In March 1982 the central authorities issued a directive calling on local organs to do "still better family planning work," insisting that they "promptly study and tackle the new situation and new problems that have cropped up," and making the one-child policy virtually universal. The directive stated flatly that "no one is allowed to have a third child, no matter what."[45]

This time the response at lower levels was confused. Some localities reinstated methods considered coercive in 1978, which had been abandoned for the second time in 1980, and added "administrative disciplinary measures," forbidden during the 1980 anti-coercion campaign, to the economic penalties allowed under the provincial family planning laws.[46] In others, the work virtually ceased, childbearing was allowed to "take its course," and "a state of anarchy" prevailed in family planning work.[47]

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[44] "Sheng renkou xuehui zhengshi chengli" ("The Fujian Provincial Population Association Is Formally Established"), Fujian ribao (Fujian Daily) (FJRB), Fuzhou, September 5, 1981, p. 2; Gao Xin, "Jihua shengyu wanwan buke fangsong" ("Absolutely No Relaxation in Family Planning"), Banyue tan (Semi-Monthly Tribune) (BYT), No. 17, September 10, 1981, pp. 26-27; "We Must Seriously Study the New Situation in Family Planning"), RMRB, August 18, 1981, FBIS, No. 163, August 24, 1981, p. K12; XINHUA, Beijing, December 8, 1981, FBIS, No. 237, December 10, 1981, p. K2; Xining radio, Qinghai Provincial Service, July 1, 1981, FBIS, No. 127, July 2, 1981, p. T1; "Unswervingly Direct Proper and Intensified Efforts Toward Family Planning," SCRB, September 25, 1981, FBIS, No. 207, October 27, 1981, p. Q1; and Jinan radio, Shandong Provincial Service, September 24, 1981, FBIS, No. 188, September 29, 1981, p. O4.

[45] XINHUA, Beijing, March 13, 1982, FBIS, No. 50, March 15, 1982, p. K5.

[46] "Wei shixian wosheng jinnian jihua shengyu renwu zuochu xin gongxian" ("Make New Contributions to the Accomplishment of the Family Planning Tasks of Shandong Province This Year"), DZRB, February 15, 1982, pp. 1-4; Guangzhou radio, Guangdong Provincial Service, February 27, 1982, FBIS, No. 43, March 4, 1982, p. P5; Li Hua, "Jihua shengyu zerenzhi de jizhong xingshi" Renkou yanjiu (Population Research) (RKYJ), No. 2, March 29, 1982, p. 61; Zhao Yugui, "Kongzhi renkou zengzhang cujin 'sihau' jianshe" ("To Control Population Growth and Accelerate the Construction of the 'Four Modernizations'"), Renkou yu jingji (Population and Economy) (RKYJJ), No. 2, April 25, 1982, pp. 5-6; and "Jianding buyi de zhixing dang de renkou zhengce" ("Implement the Party's Population Policy Resolutely Without Wavering"), XHRB, July 5, 1982, p. 1.

By the end of 1982, the central authorities became aware of another threat to their population control efforts. The preliminary results of the census of July 1, 1982 showed that the bulge in the Chinese age structure caused by the high birth rates after the famine of 1959-61 would soon reach the ages of marriage and childbearing, causing a marked rise in births and threatening the national goal of keeping the population total under 1.2 billion by the year 2000. In November 1982, Qian Xinzhong told a national family planning conference that

> Our country is now facing a new peak in population growth rates... Only by maintaining the annual net increase in population at around 10 million for the next 18 years can we achieve the fighting goal of limiting the population to under 1.2 billion by the end of this century.[48]

In the same month, State Councillor Bo Yibo warned that the next three years, 1983-85, would be crucial for family planning in China.[49] The official concern led to the adoption of the most coercive family planning policies the world has ever seen.

The peak of coercion: 1983

On December 6, 1982, a circular issued jointly by the SFPC, the Party Central Committee, and several other central ministries and mass organizations announced that a national family planning "propaganda" month would begin on New Year's Day 1983 and continue until after Spring Festival. The circular made it clear that more than propaganda was intended. It called for the sterilization of all couples with two or more children and the prompt abortion of all unauthorized pregnancies.[50] After the start of the new year, sterilization was said to be the "key measure" under the new policy, which also required that all women with one child have intrauterine devices (IUDs) inserted. When the "propaganda" month was over, it was announced that the policies were to be continued indefinitely.[51] Official statistics subsequently revealed that the numbers of sterilizations in China increased sharply in 1983 to nearly three times the number in the previous peak year, which was 1979. Of the 20.8 million sterilizations in 1983, almost 80 percent were female.[52]

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[47] Song Youtian, "Guanyu jihua shengyu gongzuo de baogao" ("Report on Family Planning Work"), Shaanxi ribao (Shaanxi Daily) (SXRB), Xian, March 9, 1982, p. 3; "Zhazha shishi zuo hao jihua shengyu gongzuo" ("Do Well in Family Planning Work in a Down-to-Earth Manner"), HLJRB, March 13, 1982, p. 1; Beijing radio, Domestic Service, April 20, 1982, FBIS, No. 77, April 21, 1982, p. K11; "Luoshi shengyu zhengce kongzhi renkou zengzhang" ("Implement Birth Control Policy to Control the Growth of Population"), FJRB, May 4, 1982, p. 1; Guangzhou radio, Guangdong Provincial Service, May 2, 1982, FBIS, No. 85, May 3, 1982, p. P3; and "Shengwei shengzhengfu zhaokai dianhua huiyi dongyuan bushu zai quansheng jizhong jinxing yici jihua shengyu xuanchuan huodong" ("The Sichuan Party Committee and the Provincial Government Call a Telephone Conference to Mobilize and Make Arrangements for Carrying Out Concentrated Family Planning Activities Throughout the Province"), SCRB, July 11, 1982, p. 1.

[48] XINHUA, Beijing, November 1, 1982, FBIS, No. 213, November 2, 1982, p. K20.

[49] XINHUA, Beijing, November 6, 1982, FBIS, No. 218, November 10, 1982, p. K21.

The advantage of compulsory sterilization over other forms of birth control was obvious: it was permanent. There was no further need to monitor unauthorized pregnancies among sterilized women or to spend long hours persuading them to have abortions. Women coerced into being sterilized were coerced forever. But in 1983 the Chinese media had little to say about coercion in family planning.

As 1983 came to an end, a number of provinces were planning a second "propaganda" month in January 1984 to continue and even to intensify the sterilization drive,[53] but these plans were presently interrupted by another central policy change. In December 1983, Qian Xinzhong, who had been strongly identified with the coercive policies of 1983, was removed without explanation from his post as head of the SFPC,[54] and in January 1984, the new head, Wang Wei, signalled a new approach to family planning by asserting that the work must be "based on local conditions" and carried out "reasonably to win the support of the broad masses." He urged the cadres to find ways of doing family planning work effectively while at the same time "building a close relationship between the Party and the people,"[55] a clear indication that, as before, coercive family planning tactics had alienated the masses and needed to be disavowed.

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[50] "Guanyu kaizhan quanguo jihua shengyu xuanchuanyue huodong de tongzhi" ("Circular on Carrying Out the Nationwide Family Planning Propaganda Month Activities"), State Family Planning Commission Document No. 207, December 6, 1982, Zhonghua remin gongheguo guowuyuan gongbao (People's Republic of China State Council Bulletin), 1982:21, February 12, 1983, pp. 1063-1070.

[51] Qian Xinzhong, "Xie zai jihua shengyu xuanchuanyue qianmian" ("Written Prior to Family Planning Propanganda Month"), JKB, December 19, 1982, p. 1; and "Zongyang lingdao tongzhi zuijin zhichu jihua shengyu gongzuo bixu jixu zhuahao" ("A Central Leadership Comrade Recently Pointed Out That Family Planning Work Must Continue to Be Done Well"), JKB, March 3, 1983, p. 1.

[52] Zhongguo weisheng nianjian Compilation Committee. Zhongguo weisheng nianjian 1984 (Public Health Yearbook 1984), Beijing, Renmin weisheng chubanshe, March 1985, p. 32.

[53] "Zhejiang Begins Family Planning Drive," Zhejiang ribao (Zhejiang Daily), Hangzhou, November 6, 1983, FBIS, No. 222, November 16, pp. 04-6; Zhengzhou radio, Henan Provincial Service, November 22, 1983, FBIS, No. 229, November 28, 1983, p P5; Nanjing radio, Jiangsu Provincial Service, December 24, 1983 JPRS, No. 84-018, February 27, 1984, pp. 66-67; and Feng Zongtang and Cheng Jinzhen, "The Provincial Family Planning Work Conference Once Again Points Out That at No Time Should Family Planning Work Be Relaxed," Hebei ribao (Hebei Daily) (HBRB), Shijiazhuang, January 10, 1984, FBIS, No. 14, January 20, 1984, pp. R1-2.

Party Document No. 7

Confirmation of the change of policy was given at a 10-day conference of provincial family planning leaders in Beijing early in March 1984. Those at the conference were told that family planning measures must henceforth be "more realistic," supported by the masses, and easy for the cadres to carry out, that the cadres must "improve [their] work style," "refrain from coercion," and "strictly forbid any illegal and disorderly action." They were also advised that, while the one-child limit should still be promoted, the conditions for allowing a few couples to have a second child should be enlarged a little, provided that the still stringent limits on national, provincial, and local population growth based on the target of under 1.2 billion in the year 2000 were not exceeded,[56] which meant that only a limited number of additional second births could be allowed.

Previously, urban couples were allowed to have a second child only if the first was so disabled by a nonhereditary impairment as to be unable to work, or if one spouse had had a child in a previous marriage but the other had not, or if the couple became pregnant after adopting a child because of infertility. In the rural areas, a few other reasons were allowed, but the percentage of couples who could qualify must have been very small.[57] One Chinese source indicates that in some areas the old rules allowed about 5 percent to have a second child.[58] The new policy enlarged it to "about 10 percent," a change that was referred to as "opening a small gap," but it also stipulated that before the "small gap" could be opened, the "big gap" of unauthorized births must be closed.[59]

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[54] "China Set to Invoke New Law on Statistics," CD, December 9, 1983, p. 1.

[55] "Guojia jihua shengyu weiyuanhui fuzhe tongzhi weiwen jiceng ganbu he dozinuhu" ("Responsible Comrades of the State Family Planning Commission Visit Basic Level Cadres and Households with an Only Child"), JKB, January 28, 1984, p. 1.

[56] "Quanguo sheng, shi, ziziqu jihua shengyu weiyuanhui zhuren huiyi haozhao jixu dali zhuanhao shengyu gongzuo" ("Conference of Directors of Family Planning Commissions of All Provinces, Municipalities, and Autonomous Regions Calls for Continued Efforts to Carry Out Family Planning Work"), RMRB, March 8, 1984, p. 1.

The new policy was set forth in a statement issued on April 12, 1984 by the Party Central Committee called "Document No. 7," which for the next two years was said to be the basic set of guidelines governing family planning. The text has never been published, but some of the provisions were quoted or paraphrased in public sources. Evidently it contained other provisions not to be revealed to the people of China or to the rest of the world.

The provisions that have been disclosed show a curious internal contradiction in that they seem to call for moderation of tactics and yet require the attainment of the same targets by essentially the same means as were advocated during 1983. From the start, these contradictions caused confusion among family planning cadres. For example, the document insisted that family planning work must be "grasped firmly and well." The phrase "grasp firmly" had been in frequent use since the early 1970s in contexts that clearly implied an exercise of cadre power to secure quick results. The central family planning journal attempted to reinterpret this expression in April 1984 as follows:

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[57] Some provinces permitted a second child if the family had had only one son in two or three generations, if only one of several brothers is capable of having children, if the husband settles down in the family of a wife who is an only daughter, if the marriage is between an only son and an only daughter, if the man is a disabled serviceman, if the couple are both returned overseas Chinese, or if the household is considered a hardship household residing in a distant border area or a coastal fishing area. See State Family Planning Commission General Office, "Guanyu jihua shengyu de ruogan zhengce" ("Several Policies Concerning Family Planning"), Nongcun gongzuo tongxun (Rural Work Bulletin), No. 2, February 5, 1983, p. 47.

[58] Li Honggui, "Wanshan shengyu zhengce shi ge jianbian guocheng" ("It Is a Gradual Course to Perfect the Policy of Family Planning"), Jiankangbao jihua shuengyu ban (Health Gazette Family Planning Edition) (JKBJHSYB), February 1, 1985, p. 3.

[59] Long Guangrong, "Renzhen kai hao xiaokou qieshi duzhu dakou" ("Earnestly Do Well in Opening a Small Gap and Effectively Close the Big Gap"), JKBJHSYB, October 19, 1984, p. 3.

> A few comrades do not understand what is meant by [the phrase] family planning work must be "grasped firmly" as stated by the Party Central. They thought that "grasped firmly" means that policy regulations must be carried out strictly. ... The formulation of policies must be based on objective reality. If the policy is too strict and is beyond objective reality, sometimes it may be temporarily effective but often it cannot last long. ...[80]

But in the context of 1984, the injunction to do family planning work "well" often seemed to imply the avoidance of coercive tactics. Linking the two expressions in one phrase sent conflicting signals to the cadres. Yet the central authorities pretended that the two instructions were perfectly compatible. In July 1984, Wang Wei said that

> Document No. 7 points out that family planning work "must be done with a tight rein and be done well with great effort. ... In terms of having a tight rein and doing well, some comrades often have a one-sided understanding. Some of them think that having a tight rein is one matter whereas doing well is another matter. They think that having a tight rein means the fulfillment of targets and doing well means the implementation of policies and solution of workstyle problems. Some even set having a tight rein and doing well as opposites. How can they be understood in this way?[81]

The answer, given the cadres' past experience in implementing the policy, was, very easily. Little wonder they found it hard to guess the true intent of the new directives.

The ambiguities in Document No. 7 were not a new feature in China's family planning guidelines. There were similar ambiguities in the Party "open letter" of September 1980 and in other central instructions, which sometimes advise against coercive tactics while insisting on targets that could not be attained except by coercive means. These ambiguities seem to serve two useful functions for the central leadership. They permit the leaders to shift emphasis from meeting targets to improving "workstyle" and back again in response to public reactions and other problems without having to admit that previous orders were mistaken or even that they had been changed. They also make it easy for the central authorities to attribute coercion to local misunderstanding of central policy when in fact it is precipitated by central demands made with full awareness of the consequences at the local level. Obviously, the real meaning of Document No. 7 does not lie in the literal interpretation of its provisions but in the changing emphasis placed on them by the central authorities over the next two years.

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[80] Liang Jimin and Peng Zhiliang, "Ying quanmian lijie zhengque guanche jihua shengyu zhengce" ("The Implementation of Family Planning Policies Should Be Understood Correctly and Fully"), JKBJYSYB, April 13, 1984, p. 3.

[81] Wang Wei, "Ba zhongyang jingshen bian wei ganbu quzhong de zijue xingdong" ("To Turn the Guidelines of the Party Central Committee into Voluntary Action on the Part of the Cadres and the Masses"), JKBJHSYB, July 6, 1984, p. 1.

The first stage--slight easing

When Document No. 7 was issued, the Chinese authorities made it quite clear that the relaxation of family planning policies was meant to be very limited. They stated explicitly that very few couples were to be allowed a second child, that one child was still the normal prescription, and that "unplanned" (i.e., unauthorized) births and "excessive" (i.e., third and higher order) births were to be "resolutely" prohibited. The April 1984 article in the national family planning journal cited above explained that

> To understand and implement fully the guideline of the Party directives means that, based on the extensive promotion of one child per couple, the allowance for a second child in a planned way in rural areas may be widened a little. At the same time, strict control must be applied to unplanned second births and to excessive births...under the premise that the population by the end of this century will not exceed the target of 1.2 billion...[62]

Many sources make it clear that a general relaxation of family planning requirements was not what was intended. A People's Daily article in March 1984 said that "family planning work must not be weakened and relaxed."[63] Other sources warned that there was to be no "wavering" and that the work

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[62] Liang and Peng, loc. cit.

[63] "Jihua shengyu gongzuo renwu ren shifen jianqu" ("The Task of Family Planning Is Still Extremely Difficult"), RMRB, March 4, 1984, p. 3.

"must not be slackened in the slightest."[84] Many others insisted that targets and quotas for family planning work must still be attained on schedule.[85]

Moreover, despite the insistence of Chinese spokesmen that the people were to be allowed more freedom in the choice of contraceptive methods, a number of areas were still requiring IUDs for women with one child, sterilization for couples with two or more children, and "remedial measures" for all unauthorized pregnancies,[86] policies that had been enforced rigorously in 1983. Although there were numerous warnings against "coercion and commandism" in family planning work,[67]--so numerous as to contradict the official claims that such incidents were few and isolated, the Party leaders also praised the "achievements" of the extremely coercive 1983 campaign. At the March conference of provincial family planning directors, Party spokesmen declared that the Party's past policies had been "consistent and entirely correct" and specifically lauded the "great results" of work in 1983,[68] and this "high appraisal" was said to have "given great encouragement" to those attending the conference.[69]

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[84] "Shi shi qiu shi yin di zhi yi" ("Seek Truth from Facts and Take Appropriate Action to Suit Local Conditions"), JKBJHSYB, March 30, 1984, p. 1; Shijiazhuang radio, Hebei Provincial Service, April 8, 1984, JPRS, No. 84-032, May 2, 1984, pp. 74-75; Commentator, "Jihua shengyu gongzuo yao zhuajing zhuahao" ("Family Planning Work Must Be Carried Out Firmly and Well"), BYT, April 10, 1984, pp. 7-9; Guangzhou radio, Guangdong Provincial Service, May 8, 1984, FBIS, No. 91, May 9, 1984, p. P1; and Shenyang radio, Liaoning Provincial Service, May 14, 1984, FBIS, No. 95, May 15, 1984, p. S1.

[85] A SFPC official told a XINHUA reporter in July 1984 that there had been "no change in the target of controlling the population under 1.2 billion by the end of this century." See "Woguo jinyibu wanshan jihua shengyu de juti zhengce" ("China Takes Further Steps to Refine the Concrete Policies on Family Planning"), RMRB, July 4, 1984, p. 3. Local sources also demanded that targets be met. Guangdong family planning workers were told that "Guangdong's population must be kept below 70 million by the end of the century," the target assigned to Guangdong in the late 1970s in keeping with the national target of 1.2 billion. See Guangzhou radio, Guangdong Provincial Service, April 27, 1984, FBIS, No. 85, May 1, 1984, p. P1. See also Kunming radio, Yunnan Provincial Service, April 30, 1984, FBIS, No. 86, May 2, 1984, p. Q3; Changsha radio, Hunan Provincial Service, May 14, 1984, FBIS, No. 96, May 16, 1984, p. P6; Hohhot radio, Nei Monggol Regional Service, June 6, 1984, FBIS, No. 112, June 8, 1984, p. R7; "Zhejiangsheng zhengfu jueding gaige jihua shengyu gongzuo guanli zhidu ba kongzhi renkou guihua baogan luoshi dao ge shi xian" ("The Government of Zhejiang Province Decides to Reform the Management System of Family Planning Work; It Assigns the Targets for Population Control to All Municipalities and Counties"), JKBJHSYB, July 27, 1984, p. 1; Nanning radio, Guangxi Regional Service, August 1, 1984, FBIS, No. 151, August 3, 1984, p. P5; Guiyang radio, Guizhou Provincial Service, November 9, 1984, FBIS, No. 220, November 13, 1984, p. Q1; and Taiyuan radio, Shanxi Provincial Service, November 18, 1984, FBIS, No. 226, November 21, 1984, p. R4.

[86] Haikou radio, Hainan Island Regional Service, March 20, 1984, FBIS, No. 57, March 22, 1984, p. P2; Urumqi radio, Xinjiang Regional Service, March 24, 1984, FBIS, No. 59, March 26, 1984, p. T3; Kunming radio, Yunnan Provincial Service, March 28, 1984, FBIS, No. 92, April 12, 1984, p. Q2; Shijiazhuang radio, Hebei Provincial Service, April 8, 1984, JPRS, No. 84-032, May 2, 1984, p. 74; Guangzhou radio, Guangdong Provincial Service, April 29, 1984, FBIS, No. 85, May 1, 1984, p. P1; and Guiyang radio, Guizhou Provincial Service, June 14, 1984, FBIS, No. 120, June 20, 1984, p. Q1. Hainan Island boasted in May 1984 that it had overfulfilled the quota of sterilizations assigned by Guangdong Province by 20 percent' See Haikou radio, Hainan Regional Service, May 4, 1984, FBIS, No. May 7, 1984, p. P2.

Despite the warnings that no relaxation of family planning requirements was intended, both the cadres and the people interpreted the new policy as a signal to ease up. Rumors began to sweep the countryside that all couples were now allowed to have a second child, and the rumors persisted in 1986 in spite of repeated official denials.[70] Late in 1984, Liaoning Province reported that

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[67] Xian radio, Shaanxi Provincial Service, April 8, 1984, JPRS, No. 84-035, May 10, 1984, p. 93; Wang Senhao, "Report on Government Work," *Shanxi ribao* (*Shanxi Daily*), Taiyuan, April 30, 1984, JPRS, No. 84-046, June 12, 1984, p. 35; "Zhuzhong gongzuo fangfa guanxin qunzhong jiku" ("Pay Attention to the Work Method and Care for the Sufferings of the Masses"), *JKBJHSYB*, May 18, 1984, p. 3; Peng Zhiliang, "Tan jihua shengyu zhengce yao heqing heli" ("Family Planning Policy Must Be Fair and Reasonable"), *JKBJHSYB*, June 29, 1984, p. 3; Editorial Department, "Guanyu dangqian jihua shengyu gongzuo de jige wenti" ("Several Questions on Current Family Planning Work"), *Nongcun gongzuo tongxun* (*Rural Work Bulletin*), No. 7, July 5, 1984, p. 14; and "Guangxi Zhuangzu Ziziqu dangwei diyi shuji Qiao Xiaoguang shuo bixu zuozhong jiejue zhua jihua shengyu pa fan cuowu de sixuang" ("First Secretary Qiao Xiaoguang of the Party Committee of Guanbgxi Zhuang Nationality Autonomous Region Says that Emphasis Should Be Given to Dispelling the Thought of Being Afraid to Make Mistakes in Carrying Out Family Planning Work"), *JKBJHSYB*, August 17, 1984, p. 1.

[68] "Quanguo, sheng, shi, ziziqu..," *loc. cit.*

[69] XINHUA, Beijing, March 7, 1984, FBIS, No. 49, March 12, 1984, p. K20.

[70] Changsha radio, Hunan Provincial Service, April 4, 1984, FBIS, No. 67, April 5, 1984, pp. P4-5; Guangzhou radio, Guangdong Provincial Service, April 29, 1984, FBIS, No. 85, May 1, 1984, p. P1; Hohhot radio, Nei Monggol Regional Service, June 6, 1984, FBIS, No. 112, June 8, 1984, pp. R7-8; Lhasa radio, Xizang Regional Service, August 9, 1984, FBIS, No. 156, August 10, 1984, p. Q2; Changsha radio, Hunan Provincial Service, August 10, 1984, FBIS, No. 157, August 13, 1984, p. P3; Li Guangsheng, "Grasp Family Planning Work Firmly and Continuously," *RKYJJ*, No. 4, August 25, 1984, JPRS, No. 84-085, December 11, 1984, p. 67; Lhasa radio, Xizang Regional Service, March 10, 1985, FBIS, No. 47, March 11, 1985, p. Q2;

> After Party Central Committee Document No. 7 was transmitted to the lower levels, some basic level cadres were afraid to reveal the document to the masses. They were worried that the masses would think that the policy was relaxed and make demands that would be contrary to the spirit of the document. This kind of condition in which the masses are delighted and the cadres are worried is quite prevalent.[71]

In Lhasa the popular perception was that "the storm in planned parenthood is over," and the cadres had to make the people understand that it was not.[72] Obviously the people took the prohibition of coercive tactics and the demands that the cadres improve their "workstyle" as a sign that the pressure on family planning was off.

The cadres in Liaoning were not the only ones who were worried by the shift in policy. In Guizhou Province the cadres were told that they must not let their confidence and their resolve to implement family planning work be shaken by the changes.[73] The cadres in Heilongjiang were warned that passivity, laxity, inaction, and laissez faire were contrary to "the spirit of the Document" and that "they must never hesitate, watch and wait, and bide their time."[74] In Guangxi, the cadres were afraid of making "mistakes"

Haikou radio, Hainan Island Regional Service, October 17, 1985, FBIS, No. 204, October 22, 1985, p. P1; Wuhan radio, Hubei Provincial Service, December 30, 1985, FBIS, No. 200, January 2, 1986, p. P3; Changsha radio, Hunan Provincial Service, January 20, 1986, JPRS, No. 86-018, February 13, 1986, p. 81; Huang Jialiang, "Sichuan dusheng zinu lingzhenglu xiajiang youguan bumen dui ci ying yuyi zhongshi" ("Sichuan's One Child Certificate Acceptance Rate Is Declining; Relevant Departments Should Pay Attention to This Situation"), JKBJHSYB, June 13, 1986, p. 1; and Kunming radio, Yunnan Provincial Service, September 22, 1986, FBIS, No. 185, September 24, 1986, p. Q2. The last source says, "We must continue to advocate the policy of each couple giving birth to only one child. The idea that the family planning policy will be relaxed and the idea that each couple is allowed to give birth to a second child whether they are cadres, staff, workers, and urban or rural residents is wrong and groundless."

[71] "Liaoning sheng lianxi shiji renzhen guance zhongyang qihao wenjian" ("Liaoning Province Conscientiously Implements Party Central Committee Document No. 7 by Relating It to Reality"), JKBJHSYB, November 2, 1984, p. 3.

[72] Lhasa radio, Xizang Regional Service, March 10, 1985, FBIS, No. 47, March 11, 1985, p. Q2.

[73] Guiyang radio, Guizhou Provincial Service, August 9, 1984, FBIS, No. 156, August 10, 1984, p. Q1.

[74] Harbin radio, Heilongjiang Provincial Service, JPRS, No. 84-074, October 30, 1984, p. 62.

by enforcing policies that might later be abandoned. They noted that the Cultural Revolution had been repudiated and they wondered whether family planning would also be repudiated in the future.[75] Hainan Island detected a mood of "slackening and war-weariness" among its cadres.[76] Zhejiang said that some cadres had "certain doubts and misconceptions" and as a result had "relaxed their leadership" over birth control work, while others were "afraid of difficulty and dare not work in a bold manner."[77]

How far the relaxation in family planning enforcement had actually gone was probably not known to the central authorities during 1984, although the evidence would have become available to them when the family planning statistics for 1984 were compiled by the central Ministry of Health sometime after the beginning of 1985. Each year the Ministry publishes in its yearbook a table giving the national totals for IUD insertions and removals, vasectomies, tubal ligations, and abortions from 1971 to the second year prior to the year of publication. The 1985 yearbook, issued in March 1986, included the 1984 statistics for the first time. The figures are as follows:

Birth Control Surgeries: 1971-1984[78]

Year	IUD Insertions	IUD Removals	Vasectomies	Tubal Ligations	Abortions
1971	6,172,889	---	1,223,480	1,744,644	3,910,110
1972	9,220,297	853,625	1,715,822	2,087,160	4,813,542
1973	13,949,569	1,126,756	1,933,210	2,955,617	5,110,405
1974	12,579,886	1,352,787	1,445,251	2,275,741	4,984,564
1975	16,743,693	1,702,213	2,652,653	3,280,042	5,084,260
1976	11,626,510	1,812,590	1,495,540	2,707,849	4,742,946
1977	12,974,313	1,941,880	2,616,876	2,776,448	5,229,569
1978	10,962,517	2,087,420	767,542	2,511,413	5,391,204
1979	13,472,392	2,288,670	1,673,947	5,289,518	7,856,587

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[75] "Guangxi Zhuangzu Ziziqu dangwei..," loc. cit.

[76] Haikou radio, Hainan Regional Service, November 1, 1984, FBIS, No. 215, November 5, 1984, p. P2.

[77] Hangzhou radio, Zhejiang Provincial Service, November 19, 1984, FBIS, No. 232, November 30, 1984, p. O3.

[78] Zhongguo weisheng nianjian Compilation Committee, Zhongguo weisheng nianjian 1985, (The Public Health Yearbook of China 1985), Beijing, Renmin weisheng chubanshe, March 1986, p. 57.

Year	IUD Insertions	IUD Removals	Vasectomies	Tubal Ligations	Abortions
1980	11,491,871	2,403,408	1,363,508	3,842,006	9,527,644
1981	10,344,537	1,512,376	649,476	1,555,971	8,696,943
1982	14,069,161	2,056,671	1,230,967	3,925,927	12,419,663
1983	17,755,736	5,323,354	4,359,261	16,398,378	14,371,843
1984	11,751,146	4,383,129	1,293,286	5,417,163	8,890,140
Total 1971-84	173,114,517	28,845,879	24,417,819	56,767,877	101,029,422

These figures indicate that in 1984 IUD insertions dropped back to 66 percent of the number in 1983, sterilizations to about one-third of the 1983 level, and abortions to about 62 percent of the 1983 level.

The second stage--a slight tightening

Though the relaxation in 1984 was only relative, it was more than the authorities had intended. By August 1984, the central authorities were already aware of the trend and began to demand that the cadres tighten up. Several provincial family planning conferences were held to transmit "recent instructions" from the central authorities that reaffirmed the importance of family planning and "set forth new demands." As a result, Guizhou Province resolved that "from now on...resolutely prevent[ing] additional births" would be the focal point of the province's family planning work, that all areas must "strengthen [their] resolve" and "mobilize the initiative of the cadres and the masses."[79] Heilongjiang was "emphatically" told that "cadres in charge of family planning work must better achieve the work in line with the demands of the central authorities," and that "Party committees and governments at all levels must strengthen their leadership over family planning work and mobilize and organize the forces of the whole society to achieve it."[80] Hainan Island demanded that its cadres "correct [their] understanding, strengthen leadership, and rapidly whip up a second stage in the planned parenthood drive in September."[81] Guangxi revealed that the new instructions from the central authorities included a "demand" that minority nationalities with a population exceeding 10 million meet the same family planning requirements as the Hans, instead of being treated more leniently as under previous policies, and told its cadres that it was "imperative to get a thoroughly good grasp of planned parenthood work...and take effective measures."[82] Similar orders to tighten control were issued in other provinces during the remainder of 1984.[83]

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[79] Guiyang radio, Guizhou Provincial Service, August 9, 1984, FBIS, No. 156, August 10, 1984, p. Q1.

[80] Harbin radio, Heilongjiang Provincial Service, August 13, 1984, FBIS, No. 173, September 5, 1984, p. S1.

In the fall of 1984, the SFPC issued explicit instructions about controlling more strictly the allowances for second births under Document No. 7. In July 1984, Wang Wei had said that "opening a small gap" should not be set against "blocking the large gap,"[84] but in September the SFPC noted that "some areas" had "overly relaxed the restrictions on the birth of a second child" and urged the cadres to "follow the regulations strictly."[65] In October an article in the national family planning journal said that "closing the big gap is a prerequisite and an important condition for doing well in opening a small gap."[66]

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[81] Haikou radio, Hainan Island Regional Service, FBIS, No. 173, September 5, 1984, p. P5. The Hainan authorities complained that their cadres had "done rather poorly this year in fulfilling the planned parenthood ligation surgery task assigned by the provincial authorities. We lag very far behind the average for the whole province. In fact ours is the poorest performance in the whole province." Accordingly they demanded that their cadres "unswervingly implement the planned parenthood policies and strictly ensure that an IUD is inserted after one birth, ligation carried out after a second, prompt measures [i.e., abortion] taken to deal with a pregnancy not covered by the plan, and a strict ban enforced on excessive [i.e., third and higher order] births. Both urban and rural areas are to be grasped, with the focus on the rural areas." These comments illustrate the kind of pressure local leaders feel from family planning targets handed down from higher levels. It is this pressure that accounts for much of the coercion in the family planning program, and the responsibility for it rests with the central authorities who set the targets.

[82] Nanning radio, Guangxi Regional Service, September 13, 1984, FBIS, No. 180, September 14, 1984, p. P5. The new ruling contained the qualifying phrase "in principle," suggesting that immediate full enforcement was not intended, but clearly the concern was that to allow more leniency in family planning to large minorities would require the Han population to bear a greater burden in reaching national population targets.

[83] For example, see Nan Gu, "Shaanxi Implements Responsibility System in Population Control," SXRB, Xian, October 22, 1984, JPRS, No. 85-15, February 15, 1985, p. 107; Taiyuan radio, Shanxi Provincial Service, November 18, 1984, FBIS, No. 226, November 21, 1984, p. R4; Nanning radio, Guangxi Regional Service, December 4, 1984, FBUS, No. 236, December 6, 1984, p. P1; Changsha radio, Hunan Provincial Service, December 13, 1984, FBIS, No. 243, December 17, 1984, p. P3; and Zhengzhou radio, Henan Provincial Service, December 14, 1984. FBIS, No. 243, December 17, 1984, p. P2.

[84] Wang Wei, "Ba zhongyang jingshen..," loc. cit.

Meanwhile, on October 10, Wang Wei, in one of his most incoherent public statements, told a national family planning conference that the implementation of Document No. 7 had been "firm and effective" and that the cadres were changing their "workstyle" and showing more trust in the masses, but he also said that there was "great uneveness" in the work from one place to another, that the cadres lacked a "complete understanding" of Document No. 7 and were "ideologically confused," and that the initiative of birth control activists had been "blunted" by "mistakes in our work."[67] At almost the same time, the central family planning journal advised in an editorial that Document No. 7 could not simply be interpreted as saying "there is a relaxation in family planning work" and hence that the work could be slackened, nor should emphasis be placed on "taking charge firmly" without regard to the requirements for doing a good job.[68] These somewhat equivocal communications seemed to be overridden two weeks later by another article in the same journal citing a report from Guangdong Province which outlined the "essential and crucial points in family planning work" as follows:

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[65] Wu Xuping, "Buyi suiyi fangkuan ertai zhibiao" ("It Is Inadvisable to Soften the Terms for a Second Child"), JKBJHSYB, September 21, 1984, p. 3.

[66] Long Guangrong, loc. cit.

[67] Wang Wei, "Continue to Unify Our Ideology and Take Pains to Implement Document No. 7," (Speech at the National Family Planning Conference on October 10, 1984), RKYJJ, No. 1, February 25, 1985, JPRS, No. 85-068, July 9, 1985, pp. 27-34. The speech contains a number of ambiguous comments. For example: "Many of our existing regulations are meant to control the public. Let's make them explicit. But our system is designed to enable the masses to give full play to their enthusiasm and creativity, not to restrict them. This is not a conceptual difference but one of guiding ideology." (P. 34.)

[68] "Ba zhuajing he zhuahao tongyi qilai" ("Combine Firmly in Charge with Doing a Good Job"), JKBJHSYB, October 5, 1984, p. 1.

> 1. To strengthen leadership. The crucial point in whether the masses implement birth control or not is whether the leadership has tight control over the matter or not.
> 2. To carry out the policy and birth control measures firmly, so that every couple of childbearing age will carry out their birth plans according to policy...
> 3. To persist in carrying out the "three combinations," which are (1) to combine education with economic sanctions.., (2) to combine carrying out the work on a regular basis with organizing necessary activities.., (3) to combine having the entire Party take part in the work with the work of the full-time family planning workers. [Of] the three points mentioned above...the most important one is to strengthen Party and government leadership, otherwise the other two points will come to nothing.[89]

From these indications it appears that a return to a harder line on the enforcement of family planning requirements took place during the late summer and fall of 1984.

The third stage--"workstyle" reform

Toward the end of December 1984, another shift in central policy on family planning took place. The emphasis this time was away from control of population growth and back toward improving relations with the masses, hence a softening of the line on family planning. The new signals were given at a national conference on "experimental" family planning work convened by the SFPC in Beijing at which Wang Wei and his assistant director, Zhou Boping, both made important speeches. The full texts are not available, but from summaries in the national family planning journal it is clear that the participants at the conference were told that family planning work must stress the idea of "two services," that is, "to serve the overall situation and to serve the masses." The expression "overall situation" refers to the need to control population growth for the sake of economic development, but the emphasis at this time was on the second expression, which implied that the cadres were to use less coercive tactics in promoting family planning.[90]

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[89] "Zhonggong Guangdong Shengwei shuji Xie Fei shuo jihua shengyu gongzuo yao zhuazhu yaoling zhuazhu guanjian" JKBJHSYB, October 19, 1984, p. 1.

[90] Wang Ying, "Quanguo jihua shengyu shidian gongzuo qingkuang jiaoliuhui qiangdiao jihua shengyu gongzuo yao shuli" ("National Meeting for the Exchange of Information on Experimental Family Planning Work Stresses the Importance of Establishing the Idea of 'Two Services'"), JKBJHSYB, December 14, 1984. p. 1.

What prompted the change is not entirely clear, but it appears that a general drive for Party "rectification" and reform that had been going on since early in the year and had affected many other spheres of administration in China had finally reached family planning work. At the conference on experimental work, Wang Wei said that Document No. 7 "shows the road to reform in family planning work" and that it "clarifies the direction of family planning work in the areas of ideology, policy, system, and workstyle."[91] In his speech explaining the reform program, he made six points, most of them characteristically vague and equivocal, but on balance they seem to point toward moderation.[92]

The new line was also conveyed at a two-week national conference on family planning propaganda and education held in Chengdu, Sichuan, December 10-26, 1984. According to an article in the national family planning journal

> The conference...emphatically pointed out that propaganda work on birth control is meant to serve the masses. Propaganda and service are important tasks of the birth control departments. ... Therefore, in order to do a good job in our birth control propaganda work, we must establish the idea of trusting the masses, relying on the masses, and wholeheartedly serving the people. We must ideologically and emotionally shift our focus to "serving the masses."[93]

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[91] "Wang Wei tan jihua shengyu gongzuo gaige de liudian shexiang" ("Wang Wei Talks About Six Ideas on Reform of Family Planning"), JKBJHSYB, December 21, 1984, p. 1.

[92] The first point called for "straightening out the thinking" of family planning leaders, which apparently meant that they were to be conscious of the role of family planning in attaining national economic developments targets and goals, an idea with hard line implications. The second point was to make family planning policy "more perfect," which can mean moderating the policy or tightening it to assure results; in this instance it seemed to mean the latter. The third point was to reform the "contract system" in family planning, essentially a hard line measure by which families and units commit themselves under contract to attain specific family planning targets, but in this instance the emphasis was on improving relations with the masses and persuading them to comply with the requirements voluntarily, hence this was a soft line measure. The fourth point was to reform mass propaganda to solve "ideological problems" and provide technical information, implying more emphasis on persuasion hence a soft line measure. The fifth was to improve statistical work for family planning --basically to overcome falsification of statistics, hence a hard line measure. The sixth was to improve "workstyle" and therefore clearly soft line. See "Wang Wei tan jihua shengyu..," loc. cit.

[93] Dong Taituo and Wang Lingling, "National Propaganda and Education Conference on Birth Control Work Stresses that Propaganda Work Must Adopt Various Forms to Serve the Masses," JKBJHSYB, January 4, 1985, JPRS, No. 85-035, April 15, 1985, pp. 60-61.

An accompanying editorial explained that

> In 1985...we must continue to implement Central Document No. 7 and get a handle on reform in our birth control work. ...
> We must carry out reform in our birth control policies. Our policies must be established on the basis of showing understanding and reason, receiving the support of the masses, and cadres finding it easy to do their work, as well as on the basis of seeking truth from facts. ...
> We must carry out reform in our workstyle. We must earnestly set straight the relationship between our birth control cadres and the vast ranks of the masses and change from unilaterally asking the masses to do this and that to everywhere thinking on behalf of the masses, looking after the masses, doing everything for the people, and doing everything by relying on the people. ...
> Population targets transmitted from higher to lower levels must be flexible. Initiative must be given to the lower levels to permit family planning work to adapt to new conditions. ...[94]

The conference was told that the cadres must "truly move from the stand of 'controlling the masses' to a stand of 'serving the masses.'"[95] At a January 11 mobilization meeting in Beijing, Wang Wei called on leading cadres to continue to have a "firm grasp" of family planning work but he also advised them not to be "too rigid in delivering sermon[s] to the masses" and told them to become "people the masses can confide in."[96]

Until about March 1985, the new reform of family planning cadres called for by the central authorities was echoed in some provincial and local family planning dispatches. Shanghai's family planning commission said that propaganda must be used to enable the masses to practice family planning voluntarily.[97] Gansu, while insisting that there be no halt in family planning enforcement, urged that the policies be "gradually perfected" and "workstyle" improved.[98] Guangxi urged its cadres to "act as the close friends of the masses" and treat them as the "masters" and said that it had succeeded in effectively controlling population while maintaining close ties between the Party and the masses.[99] And Sichuan claimed that after having used "a relative simple workstyle" in the past several years that had "created adverse opinions among the masses," many cadres were now visiting the people they had abused to "make as many friends as possible" and were exhibiting "an attitude characterized by the heart of a dear mother, the advice of a grandmother, and the love of a sister"![100] But on the whole, the local response to the call for a change in "workstyle" seems to have been neither widespread nor strong.

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[94] "Jixu duanzheng zhidao sixiang gaohao jihua shengyu gaige" ("To Continue to Straighten Out the Thinking of the Professional Leadership and Carry Out the Reform of Family Planning Well"), *JKBJHSYB*, January 4, 1985, p. 1.

[95] "Quanguo jihua shengyu xuanchuan jiaoyu gongzuo huiyi zai Chengdu juxing" ("National Conference on Family Planning Publicity and Education Held in Chengdu"), *RKYJ*, No. 2, March 29, 1985, p. 61.

[96] Beijing radio, Domestic Service, January 11, 1985, FBIS, No. 10, January 15, 1985, p. K27.

[97] "Jihua shengyu gongzuo yao genshang gaige bufa" ("Family Planning Work Must Catch Up with the Pace of Reform"), *Jiefang ribao* (*Liberation Daily*) (*JFRB*), Shanghai, January 24, 1985, p. 2.

[98] Lanzhou radio, Gansu Provincial Service, January 25, 1985, FBIS, No. 18, January 28, 1985, p. T1.

Even by the middle of February, the enthusiasm of the central authorities for moderating family planning methods seems to have cooled somewhat. In interviews for the Chinese radio network, Wang Wei claimed that great progress had already been made in improving "workstyle" since Document No. 7 was issued, but he made it clear that he was equally concerned with implementing family planning requirements and attaining targets.[101] Although at a March conference on establishing a national family planning information system he ~~again~~ alluded to the need to "resolutely" correct "the extremely bad workstyle of acting blindly" and "crudely and carelessly issuing orders and commands," the emphasis had once again shifted to the control of unauthorized births and fulfillment of targets.

Even during the period when "serving the people" was supposed to be the watchword, basic family planning requirements were not eased. In January the SFPC still insisted unequivocally that "unplanned births must be prohibited."[102] Guizhou told its cadres that they must

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[99] Nanning radio, Guangxi Regional Service, February 12, 1985, FBIS, No. 31, February 143, 1985, p. P1.

[100] Beijing radio, Domestic Service, March 10, 1985, FBIS, No. 63, April 2, 1985, p. Q1. The source adds that during the previous period, when the cadres were more overtly coercive, a saying circulated that "When the farm machinery cadres arrived, they were served eggs; when Party and government cadres arrived, they were served tea and rice; and when family planning cadres arrived, they were hit with shoulder-poles."

[101] Beijing radio, Domestic Service, February 17, 1985, JPRS, No. 85-027, March 18, 1985, p. 29; and "Jihua shengyu gongzuo yao guanchuan fuwu quanju de sixiang" ("Family Planning Work Must Be Imbued with the Thought of Serving the Overall Situation"), JKBJHSYB, February 22, 1985, p. 1.

> Correctly propagate and implement the policy on planned parenthood work and resolutely forbid all births beyond the plan. It is necessary to lay stress on resolutely forbidding multiple births and to firmly grasp it and never slacken it.[103]

The Shaanxi provincial Party newspaper said that, although women who had successfully controlled births by other methods could continue to use them,

> Either the husband or the wife of a couple that have two or more children should be sterilized. Ideological education and technical services should be stressed, particularly in areas where families tend to have many children. We should implement thoroughly our policy on sterilization in those areas and resort to remedial measures when dealing with pregnancies that do not comply with planning.[104]

In February, the national family planning journal cited for emulation a Zhejiang town that had established a "control system" for temporary residents so that it could "mobilize" them to practice birth control. Under this system,

> When unplanned pregnancies are discovered, they must be reported promptly to their units, which will assist in doing ideological and mobilization work.[105]

The Zhejiang example related to a new concern of the central authorities that temporary rural-to-urban migrants, who usually retained their rural household registration and were therefore not enrolled in the urban population records where they resided, were often ignored by family planning cadres in both places. As one writer noted,

> The regulations on family planning in some places were just not able to touch them, and they remained in "nobody's jurisdiction." ... We must do everything to eliminate the "nobody's jurisdiction" problem and let family planning work develop a closed circuit. ... Temporary household registration must be required.

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[102] "At Present Our Country's Single Child Rate Has Already Reached 35 Million," JKBJHSYB, January 18, 1985, JPRS, No. 85-055, June 6, 1985, p. 33.

[103] Guiyang radio, Guizhou Provincial Service, January 6, 1985, FBIS, No. 5, January 8, 1985, p. Q1.

[104] Qin Zixun, "Current Policy on Family Planning," SXRB, January 11, 1985, JPRS, No. 85-033, April 5, 1985, p. 89.

[105] "Tangqi zhen jianli 'wailai' 'waichu' yuling funu guanli zhidu" ("The Town of Tangqi Establishes a Control System Over 'Incoming' and 'Outgoing' Women of Childbearing Age"), JKBJHSYB, February 15, 1985, p. 1. "Mobilization" is a term used to describe various procedures by which people are impelled under direct administrative pressure to do things they would not do on their own initiative. In this case the "mobilizations" were intended to result in abortions.

> ... Birth control should be enforced. ... Measures to reward good and punish evil should be implemented.[106]

In March another locality was held up for emulation because of its aggressive punishment of four types of "sabotage" of family planning:

> The [Shengqiu County, Henan] people's congress issued the following public notice:
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> 1. Those who deliberately attack and take revenge against family planning cadres and destroy their crops and assets will be severely treated according to the seriousness of their cases. They will be investigated and held criminally responsible.
> 2. Those who secretly remove IUDs and issue false documents will be treated as sabotaging family planning.
> 3. Those who insist on having a second or excessive birth must be treated according to the prescribed policies. If they are Party members or cadres, it is proposed that they be given Party and administrative discipline.
> 4. Those who mistreat female babies and their mothers must be given severe punishment according to the seriousness of their cases and be held criminally responsible.[107]

On April 12, 1985, an editorial in the national family planning journal marking the first anniversary of Document No. 7 claimed great progress in making the policy "perfect," improving "workstyle," and bringing about a closer relationship between the Party and the masses, while still controlling population growth, and said that the cadres had changed their relationship to couples of childbearing age from one of "control" to one of "service".[108] The writer clearly expected that the reform of family planning tactics was to continue. Local reports asserted that people everywhere were saying that the policy was one which "loves the people" and that family planning cadres had become "bosom friends" of the people, that they had altered their methods "from blocking and controlling to serving the masses," and that "the workstyle of the cadres has obviously changed."[109] During the next several months, the SFPC declared that the policy had won the support of the "broad masses," that family planning compliance was becoming increasingly voluntary, and that the number of complaints about cadre "workstyle" received by the Commission in 1984 was 43 percent fewer than in 1983.[110]

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[106] Qin Si, "The Emergence of Problems in Urban Family Planning and Suggestions to Supplement the Current Regulations," JKBJHSYB, February 8, 1985, JPRS, No. 85-037, April 18, 1985, pp. 16-19.

[107] "Shenqiu xian renda yi falu wei baozhang fachu gonggao zhizhi silei pohuai jihua shengyu gongzuo de xingwei" ("The People's Congress of Shenqiu County Takes the Law as Its Authority to Issue a Public Notice on Prohibiting Four Types of Behavior Sabotaging Family Planning Work"), JKBJHSYB, March 1, 1985, p. 1. The "secret" removal of IUDs is seen by the authorities as "sabotage" of family planning because it is carried out by women who want to become pregnant without permission. Obviously they cannot have their IUDs removed on request by the regular medical services, which in many cases had inserted them without their consent. The fourth type of "sabotage" is female infanticide, which, as this notice indicates, is still continuing in spite of official denials.

[108] "Jixu shenru quanmian guanche zhongyang qihao wenjian" ("To Continue to Implement Document No. 7 of the Party Central Committee in Depth and Throughout the Country"), JKBJHSYB, April 12, 1985, p. 1.

The fourth stage--rising concerns

While some sources were reporting this happy state of affairs in relations between the cadres and the masses, others expressed concern over the poor performance of "backward units" in birth control work, the numbers of "excessive" births, rising birth rates, the failure to control fertility among the temporary population in the cities, and the falsification of family planning statistics. As the year wore on, the family planning authorities were increasingly preoccupied with overcoming a "slack mood" among the cadres, and getting them to "grasp the work firmly" and meet their targets. In April Hunan's family planning cadres were told that

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[109] Jiang Zeyu, Director, Sichuan Provincial Family Planning Commission, "Shiqian yinian chu jian chengxiao" ("The Practice of One Year Wins Initial Success"), JKBJHSYB, April 12, 1985, p. 3; Chen Tongxin, "A New Phase in Shandong Family Planning Work Has Emerged," JKBJHSYB, April 12, 1985, JPRS, No. 85-064, June 28, 1985, p. 39; "Jiangsu quansheng jiben peiqi bu tuochan ganbu" ("Jiangsu Basically Completes Staffing Throughout the Province with Cadres Not Detached from Production"), JKBJHSYB, May 10, 1985, p. 1; Lu Haimu, "Regularization and Institutionalization of Family Planning Work in Guangdong," NFPB, May 11, 1985, JPRS, No. 85-069, July 10, 1985, p. 58; Fuzhou radio, Fujian Provincial Service, May 14, 1985, JPRS, No. 85-059, June 19, 1985, p. 74; "Qiewu 'bao' pianle" ("Be Sure that 'Contracts' Are Properly Done"), JKBJHSYB, May 24, 1985, p. 1; Hohhot radio, Nei Monggol Regional Service, July 29, 1985, FBIS, No. 165, August 26, 1985, p. R2; and "Jilinsheng jisheng gongzuo chuxian hao jumian" ("A Good Situation Has Appeared in the Family Planning Work of Jilin Province"), JKBJHSYB, August 2, 1985, p. 1.

[110] Huang Caigang, "Woguo renkou zheng xiang di chusheng de siwang di ziran zengzhanglu guodu" ("China's Population Transition toward a Low Birth Rate, Death Rate, and Natural Increase Rate"), JKBJHSYB, April 26, 1985, p. 1; "Xia juexin gaibian gongzuo houjin zhuangkuang" ("To Have the Determination to Change the Backwardness of the Work"), JKBJHSYB, May 3, 1985, p. 1; "Woguo renkou kuai zengzhang jixu dedao kongzhi" ("China's Exceedingly Rapidly Growing Population Is Continuously Being Put Under Control"), RMRB, June 8, 1985, p. 1; and XINHUA, Beijing, June 8, 1985, JPRS, No. 85-067, July 3, 1985, p. 51. Several comments on the quotations given above: The expression "broad" is an indefinite qualifier meaning "not all." The statement that the program is becoming increasing voluntary contains an implicit admission that it has not been and still is not entirely voluntary. This was the first time the SFPC revealed that it had received any complaints about cadre "workstyle"!

> We should continue to advocate the plan of one child per couple, and that a second child may be allowed provided that the conditions of the couple concerned meet the requirements and the couple has received approval from the authorities. We should resolutely check families with many children and the practice of having an additional child or children. ...Under no circumstances should the leadership slacken efforts.[111]

Guizhou cadres were told to "put family planning work high on their agenda and seriously and properly grasp it" and that they must "fulfill the birth control plan."[112] The lieutenant governor of Sichuan said the cadres must "fulfill completely the various targets of family planning."[113] Hebei told a provincial family planning forum that

> The key objective of the family planning program for 1985 in Hebei Province is to prevent each couple from conceiving and raising two or more than two children as part of a vigorous effort to cut to the minimum the number of counties which have lagged behind in family planning.[114]

In May the government of Guangxi called on its cadres to exhibit "determination" and overcome the "backwardness" of its family planning work and warned that

> Units that fail to fulfill their family planning tasks will not be named advanced units. Cadres who fail to fulfill their family planning contract obligations will not be able to receive the full reward. ... Those cadres who are highly efficient and have achieved good results must be given large rewards and promoted.[115]

The Fujian provincial Party secretary told cadres that "We must not slacken efforts in family planning; we should strengthen leadership" and that leaders should "take a firm grip" on the work in May and June to assure fulfillment of the year's family planning targets.[116] Tianjin implemented a new form of population plan contract with local units designed to link local population targets with the national target of under 1.2 billion population by the year 2000.[117] The draft economic and social development plan for Shanxi Province said that in 1985 the cadres "should continue to grasp well the work of family planning and control the natural growth rate of the population to within...8.9 per thousand.[118] Ningxia described its provincial plan for 1985 as follows:

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[111] Changsha radio, Hunan Provincial Service, April 8, 1985, FBIS, No. 70, April 11, 1985, p. P2.

[112] Guiyang radio, Guizhou Provincial Service, April 11, 1985, FBIS, No. 73, April 16, 1985, p. Q1.

[113] "Jisheng gongzuo yao shuli he fayang youliang zuofeng" ("Family Planning Work Must Establish and Promote an Excellent Workstyle"), JKBJHSYB, April 12, 1985, p. 1. In the article the lieutenant governor said the cadres must "take charge" of two things; targets came first and "workstyle" second.

[114] "Hebei Provincial CPC Committee and Government Hold Forum in Xingtai Calling on Counties Which Lag Behind in Family Planning to Impose a Strict Ban on Conceiving Children Above Quota," HBRB, April 27, 1985, JPRS, No. 85-087, September 4, 1985, p. 101.

[115] "Xia juexin gaibian gongzuo houjin zhuangkuang" ("Have the Determination to Change the Backwardness of the Work"), JKBJHSYB, May 3, 1985, p. 1.

> The natural growth rate of the population for 1985 is planned at 1.33 percent, and by the end of the year the population must be within 4.124 million. It is necessary to carry out propaganda and education in family planning and to provide technical services for family planning so as to ensure that the natural growth rate of the population will be kept within the limits of the plan.[119]

Toward the end of May 1985 the central authorities became increasingly concerned about the "floating population" in the cities who were ignoring family planning requirements and getting away with it. Three articles in the national family planning journal advised that

> After these people enter a city, their original place [of abode] loses control over them and the cities are unable to control them. As time goes by they form a "forgotten corner." ... If no attention is paid to this "corner" and no practical measures are adopted in time, not only will family planning policy be affected but all the successes attained over the years will relapse for lack of a final effort.[120]

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[116] Fuzhou radio, Fujian Provincial Service, May 3, 1985, FBIS, No. 90, May 9, 1985, p. O1; and Fuzhou radio, May 14, 1985, JPRS, No. 85-059, June 19, 1985, p. 74.

[117] "Renkou guanli de zhongyang gaige" ("An Important Reform in Population Control"), JKBJHSYB, May 10, 1985, p. 1.

[118] Xu Junzhou, "Draft Report on Shanxi Province's 1985 National Economic and Social Development Plan Excerpts," Shanxi ribao (Shanxi Daily), Taiyuan, May 18, 1985, JPRS, No. 85-061, July 11, 1985, p. 74.

[119] "Excerpts of a Draft Report by Deng Xichen, Director of the Autonomous Regional Planning Committee, on the National Economic and Social Development Plan for 1985, at the Third Plenary Session of the Fifth Autonomous Regional People's Congress on May 2, 1985," Ningxia ribao (Ningxia Daily), Yinchuan, May 24, 1985, JPRS, No. 85-061, July 11, 1985, p. 66. The expression "technical services" is a standard Chinese euphemism for IUD insertion, sterilization, and abortion.

[120] Hu Hanjing, Jiayu County, Hebei Province, "Yige buneng yiwang de jiaoluo" ("A Corner Which Ought Not to Be Forgotten"), JKBJHSYB, May 17, 1985, p. 3.

> ...The numbers of the floating population in and out of the cities and rural areas are increasing. ... [In Shijiazhuang Municipality] control over these people is the responsibility of the district offices, which visit these people periodically, bring the records up-to-date, and hold meetings to explain the relevant policies and make specific demands on them. ... Some of the offices stipulate that residents, cadres, employees, and workers on leave of absence without any pay must show up in person once a month, undergo an examination each quarter, and be fluoroscoped every six months. ... All newly married couples who are expecting must show their planned birth certificates. Those who are unable to produce a permit will have to undergo birth control measures [i.e., abortions].[121]

> Women of childbearing age [in Xinjin County, Sichuan] must first obtain approval and a certificate from the family planning cadre of their unit before carrying out the procedure for leaving their place of residence. Collectives which sign contracts for outside work [i.e., for contracting labor out] must sign a family planning contract at the same time. ... Women of childbearing age who are away for a long period of time should persist in having a physical examination every three months.[122]

In June the People's Daily printed a letter about the "serious problem" of migrant families in Yunnan Province who were "having children without paying attention to family planning."

> They are all in the prime of life. Many of them have brought their wives with them. One of their purposes in bringing their wives with them is to give birth to more children. ... Their answers to the question why they have done so are almost the same: "I would never have been permitted to give birth to another child in my home village. Since I am from another locality and my residence is not registered here, nobody will interfere with how many children I am going to have."[123]

The efforts of migrant workers to escape the surveillance of their local family planning cadres in order to have unauthorized children is one of many incidental indications in Chinese sources that, despite protests to the contrary by Chinese officials, especially in pronouncements addressed to foreign audiences, the Chinese family planning program is not voluntary and has not won the consent of the masses.

During the summer of 1985, the central and provincial family planning authorities tried to curb excessive coercion, perhaps a reflection of the fact that after the publication in the Washington Post in January of three articles by its Beijing correspondent, Michael Weisskopf, detailing forms of coercion in various parts of the country,[124] the U. S. Congress began to question whether the U. S. should contribute funds to the UNFPA while it continued to support the Chinese program. In July, Shandong issued a general notice charging that some of its cadres had

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[121] Zhao Huishan, "Shiying jingji gaige xingshi zhahao liudong renkou guanli" ("Adapt to the Situation of Economic Reform and Take Firm Charge of Controlling the Floating Population"), JKBJHSYB, May 17, 1985 p. 3.

[122] "Waichu de jihua shengyu wenti zenmeban?" ("What Should Be Done About the Problem of Planned Births for People Who Are Away from Home?"), JKBJHSYB, May 24, 1985, p. 1.

[123] Xu Yaping, "Plug Up a Loophole in Planned Parenthood Work," RMRB, June 4, 1985, FBIS, No. 108, June 5, 1985, p. K3.

> used their powers and positions to ride roughshod over the masses and seek personal gain. A few cadres acted crudely, forced and ordered the masses to do something, and even acted as tyrants in causing some people to die. The problems are especially prominent in the fields of readjusting land, procuring grain, collecting retention funds, planning for new villages, electing members of organs of political power at the grassroots level, and practicing the family planning policy.[125]

In August Jilin Province claimed that it had achieved good results in family planning recently in part because the family planning cadres

> changed from just giving orders and maintaining control to looking at the orders and examining what methods and measures are being used to carry out the orders. In their methods of control they changed from giving the masses a hard time and controlling them to serving the masses. In their birth control measures they changed from relying principally on technical measures [i.e., IUD insertion, sterilization, and abortion] to combining allowances for individual differences with the practice of birth control measures.[126]

In September a general article in the national family planning journal, implicitly admitting that the coercion problem was not over, warned:

> We must pay attention to two kinds of errors now made by family planning cadres everywhere. The first error is to believe that policies are improving gradually, that the work is going well, and so there is no reason to make still greater efforts in education and propaganda. The second error is to believe that propaganda and education do not solve problems and that stern measures will do the job. Thus two tendencies have appeared in practical work: One is to yield to the wishes of a certain number of the masses that a general arrangement be made for a second child and not

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[124] Miachael Weisskopf, "Shanghai's Curse: Too Many Fight for Too Little," The Washington Post, January 6, 1985, pp. A1 and A30; "Abortion Tears at Fabric of China's Society," January 7, 1985, pp. A1 and A20; and "China's Birth Control Policy Drives Some to Kill Baby Girls," January 8, 1965, pp. A1 and A10.

[125] Jinan radio, Shandong Provincial Service, July 26, 1985, JPRS, No. 85-085, August 22, 1985, p. 11.

[126] Yao Li, "Results of Family Planning in Jilin Described," JKBJHSYB, August 2, 1985, JPRS, No. 85-104, October 10, 1985, p. 88.

> actively do propaganda and explanation work. The second is that frequent rebuking and suppressing have been carried out, thereby raising tensions in the relationship with the masses. ... It is...important not to believe that if individuals do not change their thinking at once, primitive, harsh measures may be used to force them to submit. Harsh measures are often counterproductive.[127]

In the latter quotation, as in many other intermittent disavowals of coercion by the central authorities, the main concern, obviously, is not with the adverse effects on the victims but with the adverse effects on the program.

But for the most part, the authorities were most preoccupied in 1985 with the failure of some localities to implement policies, the threat of a new "baby boom," and the need to "strictly control population growth." In April, they had been concerned about the "uneven" implementation of the policies and the large number of "backward" units.[128] Shandong Province inspected its "backward" units and found that "above quota" births were "out of control," leadership was negligent, and organization was weak.[129] Guangxi proposed to deny cash awards to backward units.[130] Later in the year the same problem was discovered in several other areas. Nei Monggol reported that it had 13 county level units in which the multiple birth rate was higher than 20 percent, and in one it was almost 40 percent; Gansu said it still had 22 counties in which the combined rate for births "not covered by the plan" and "excessive" births was over 35 percent and in some counties the figure was over 43 percent; and Zhejiang noted that there were still some "weak links" in various places.[131] In December the national family planning journal said that "family planning work in about one-fourth of the areas in the country is still comparatively backward."[132]

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[127] "Do Not Neglect Education and Propaganda Work," (Commentary), JKBJHSYB, September 6, 1985, JPRS, No. 85-108, October 23, 1985, p. 51. This article makes it clear that the central authorities realize that persuasion does not work as well as force when the cadres are dealing with popular resistance to the one-child limit, but, at least in the middle of 1985, when the coercion issue was receiving worldwide attention, the authorities were trying to put distance between themselves and the tactics rendered necessary at the grassroots levels by the targets they imposed on them.

[128] "Jixu shenru quanmian..," loc. cit.

[129] Yu Xudong, "Leading Members of the Shandong Provincial Family Planning Commission Visit Grassroots Units for the Purpose of Helping Those Which Lag Behind in Family Planning Carry Out Work," JKBJHSYB, April 26, 1985, JPRS, No. 85-087, September 4, 1985, p. 31.

[130] "Xia juexin gaibian gongzuo..," loc. cit.

Several provinces reported that birth rates were rising in some areas and that population was again beginning to increase. In October Guangxi said it had had 11,000 more births in the first half of 1985 than in the same period in 1984.[133] Shanxi said that some units had registered an increase in births "beyond the plan" and a rise in the rate of second and higher order births during the first half of 1985:

> This high rate of births was caused mainly by a lack of comprehensive understanding of the Central Committee's policy on improving the family planning program, by overly emphasizing material production and neglecting population proliferation, by failing to come to grips with these two aspects of production in some prefectures and units, by the execution of a liberalization policy by some prefectures, and by the failure of some Party members, cadres, and China Youth League members to carry out the Central Committee's policy calling on each couple to bear only one child, because some of them have even gone so far as to encourage their wives to bear three or four children or more.[134]

In November Hebei said that

> Although we have scored very many achievements in this work since the beginning of this year, we failed to block the big hole in unplanned births. From January to September, unplanned births totaled more than 70,000, and there are more than 10,000 pregnant women ready to have unplanned births this year. In addition, there are 600,000 people who have not used any contraceptive methods.

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[131] "Nei Monggol Praises Family Planning Success," Nei Menggu ribao (Nei Monggol Daily), Hohhot, July 29, 1985, FBIS, No. 165, August 26, 1985, p. R2; Lanzhou radio, Gansu Provincial Service, October 17, 1985, JPRS, No. 85-116, November 29, 1985, p. 92; and "Zhejiang shengwei shengzhengfu qiangdiao yao zhuanzhi zhidao zhashi zuohao jisheng gongzuo" ("Zhejiang Party Committee and Government Stress the Point of Taking the Opportune Time This Winter and Next Spring to Do Family Planning Work Well"), JKBJHSYB, November 1, 1985, p. 1.

[132] Liang Jimin, "Zai wanshan shengyu zhengce zhong yao zhengque chuli hao sige guanxi" ("Four Relations Must Be Handled Well When Making Birth Policies More Perfect"), JKBJHSYB, December 20, 1985, p. 2.

[133] Nanning radio, Guangxi Regional Service, October 17, 1985, JPRS, No. 85-115, November 19, 1985, p. 57.

[134] "The Fundamental Family Planning Policy Calling on Each Couple to Bear One Child Remains Unchanged," Shanxi nongmin (Rural Shanxi), Taiyuan, October 22, 1985, JPRS, No. 86-016, February 1986, pp. 119-120. The article ends with the instruction that "in places where multi-child families predominate, every woman must be asked to wear an IUD following her first birth and following her second birth she or [her husband] must be sterilized..."

> ...We should greatly strengthen basic work, conscientiously implement various contraceptive and remedial measures, and resolutely block the big hole in unplanned births.[135]

On the other hand, Liaoning reported that multiple births and births "not covered by the plan" had declined in the province since the previous year. Accordingly, it announced at a meeting on October 5 that

> From now on, any couple in which at least one spouse is a peasant and which has only one daughter may ask to have another child. If the couple really has practical difficulties, consideration will be given to allowing them the right to bear a second child in line with the stipulated conditions and with the approval of the department concerned. ... However, none of the couples covered by the aforementioned conditions will be allowed to break the limits for bearing children; still less with they be allowed to have yet more children not covered by plans.[136]

Meanwhile, the central authorities realized that the bulge in the Chinese age structure caused by high birth rates in the middle 1960s and early 1970s was about to reach the ages of marriage and childbearing, which would make it extremely difficult to attain the national and local population targets established in the Seventh Five-Year Plan. As 1985, the final year of the Sixth Five-Year Plan period, was drawing to a close, the prospects of fulfilling the population plan for the period looked good, thanks in large measure to the low rate of population growth in 1983 and 1984 caused by the highly coercive family planning drive of 1983, with its massive upsurge in sterilizations and abortions. In September 1985, an article in the national family planning journal noted that projections based on the yearend 1984 population total and the trend of the first 8 months of 1985 indicated that the yearend 1985 total would be some ten million less than the planned target of 1,060 million. Family planning work, the writer observed, has gained "new strength" during the Sixth Five-Year Plan period.[137] In October another writer said that the target would "definitely be reached" and added that the emphasis during the Seventh Five-Year Plan period would be on preventing a third birth peak from taking place.[138]

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[135] Shijiazhuang radio, Hebei Provincial Service, November 8, 1985, JPRS, No. 85-120, December 17, 1985, p. 107. As is clear from many Chinese sources, "unplanned births" are births that may have been planned and strongly desired by the couples but were not planned or authorized by the authorities.

[136] Shenyang radio, Liaoning Provincial Service, October 5, 1985, FBIS, No. 200, October 16, 1985, p. S1.

[137] Yao Minhua, "China's Population Control Plan Makes Good Progress During the Sixth Five-Year Plan," JKBJHSYB, September 27, 1985, JPRS, No. 86-004, January 15, 1986. p. 25.

Concern about a third birth peak had been expressed by the central authorities several times in 1984 and 1985. In March 1984 an editorial in the national family planning journal said that

> We must clearly see that the task ahead of us is still very difficult. ... The next 10 years will be a birth peak period for the population of China, therefore family planning work cannot be slackened.[139]

In September 1984, Wang Wei also called attention to the forthcoming "baby boom."[140] In July 1985, China's leading demographic journal carried an article warning that the Seventh Five-Year Plan period would be a "crucial" one for population growth in China as the cohorts born during the second birth peak reached the childbearing ages and said that the task of controlling population growth would become "quite arduous."[141] In October some of the papers presented at a national census conference noted that China's total fertility rate, which had dropped by half in the previous 10 years, would swing back in the next 10 years to the level at the beginning of the 1980s.[142]

The point was not lost on the provincial authorities. In September Guangxi told its cadres that

> Practice has shown that if family planning work is neglected, the population will explode; if the work is carried out in a blind and unplanned manner, the relations between cadres and the masses will

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[138] Su Hang, "'Liu-wu' renkou fazhan qingkuang yu 'qi-wu' zhanwang" ("Population Growth During the 'Sixth Five-Year Plan' and Prospects in the 'Seventh Five-Year Plan'"), JKBJHSYB, October 25, 1985, p. 2.

[139] "Shi shi qiu shi..," loc. cit.

[140] XINHUA-English, Beijing, September 22, 1984, FBIS, No. 187, September 25, 1984, p. K19,

[141] Xi Jianwei, "Initial Thoughts on the Formulation of the Population Plan for the Seventh Five-Year Plan," RKYJ, No. 4, July 29, 1985, JPRS, No. 85-118, December 11, 1985, p. 10.

[142] Rong Shi, "Zhongguo 1982-nian renkou pucha dierchi kexue taolunhui..." ("Second Conference on China's 1982 Population Census"), JKBJHSYB, January 10, 1986, p. 2.

> worsen; and if things are left to drift along in family planning work, it will be difficult to control population growth.[143]

Tianjin told its cadres in October that the municipality would soon experience a third baby boom, Shandong conveyed the same message in December, and the warning was repeated by other provinces.[144]

The fifth stage--strong controls resumed

As fears about the "baby boom" rose, the demand that population growth be controlled became more insistent. In September 1985, a national Party conference adopted a proposal for the Seventh Five-Year Plan that included the following section on population:

> We must strictly control population growth, expand public health services, and improve people's health. During the plan period, the number of persons entering the marriage and childbirth years will reach a peak. We must place greater emphasis on family planning, carry it out unswervingly, and try to reduce the average annual population growth rate to 12.5 per thousand within five years...[145]

In November, Wang Wei, in his usual equivocal fashion, cautioned against "one-sidedness" in carrying out family planning work:

> In order to attain good social efficiency, we must guide family planning work meticulously. ... If we only pay attention to population quotas but neglect the opinions of the masses, it cannot be said that good social efficiency has been achieved. If we only pay attention to the opinions of the masses but fail to carry out mass work and let them carry on freely causing a loss of control, it cannot be said that good social efficiency has been

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[143] Nanning radio, Guangxi Regional Service, September 27, 1985, JPRS, No. 85-110, October 25, 1985, 103. The item continues that "Party and government leaders at all levels must...combine necessary disciplinary measures with economic sanctions, combine family planning work with the implementation of birth control measures...[and]...make contributions to the cause of family planning by every possible means..."

[144] Tianjin radio, City Service, October 29, 1985, JPRS, No. 85-117, December 6, 1985, p. 107; Jinan radio, Shandong Provincial Service, December 30, 1985, JPRS, No. 86-016, February 3, 1986, p. 64; Hu Jingui, "Qinghai shengwei shengzhengfu fachu tongzhi 'qi-wu' qijian yao jin yibu zhuajin zhuanhao jihua shengyu gongzuo" ("Qinghai Provincial Party Committee and Qinghai Provincial Government Issue Circular on Taking Charge of and Doing Well Family Planning Work During the Seventh Five-Year Plan Period"), JKBJHSYB, February 21, 1986, p. 1; Zhengzhou radio, Henan Provincial Service, April 11, 1986, FBIS, No. 71, April 14, 1986, p. P1; and XINHUA, Nanjing, March 23, 1986, JPRS, No. 86-041, April 15, 1986, p. 54.

[145] "Proposal of the Central Committee of the Communist Party of China for the Seventh Five-Year Plan for National Economic and Social Development," (adopted at the National Conference of the Communist Party of China, September 23, 1985), Beijing Review, Vol. 28, No. 40, October 7, 1985, p. xxii.

achieved.[146]

He also repeated some of the ideas from the previous winter that had not been mentioned for many months:

> Family planning is related to the interests of the masses. Without the support of the masses and their voluntary action, it is impossible to implement family planning. Family planning cadres at all levels must resolutely have faith in the masses, rely on them, care about them, and serve them wholeheartedly.[147]

But he again made clear that these benign sentiments did not mean that one should defer to the wishes of the masses in regard to having children:

> The emphasis in family planning work is not only on meeting a certain population plan quota but also on relieving the masses of the influence of old ideology, on changing their customs, habits, and views on having children. Changing their views on having children is a long process in the construction of socialist spiritual civilization. This demands that we persist in taking firm charge of the construction relentlessly.[148]

Thus the cadres were charged not just with changing the numbers of children born to Chinese couples but also with changing their attitudes toward having children.

Some of Wang's ideas were reiterated in an article in the national family planning journal in December which argued that to consider the needs of the country and the wishes of the people in family planning was "entirely realistic" but that "if we only stressed the wishes of the masses and permitted two children per couple universally, together with some excessive births, our population would reach 1.3 billion by the end of this century and...1.8 billion...by 2050." The author concluded that

> In addition to a reasonable and fair policy and a realistic population target, we must take firm charge of the work. Without taking firm charge of the work, even with a correct policy and a correct population target, it is difficult to achieve results... We must resolutely and strictly control the growth of the population.[149]

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[146] Wang Wei, "Jihua shengyu shi shehui zhuyi jingshen wenming jianshe de zhongyao neirong" ("Family Planning Is an Important Part of the Construction of Socialist Spiritual Civilization"), JKBJHSYB, November 22, 1985, pp. 1 and 3.

[147] Ibid.

[148] Ibid.

[149] Liang Jimin, "Zai wanshan shengyu zhengce zhong yao zhengque chuli hao sige guanxi" ("Four Relations Must Be Handled Well When Making Birth Policies More Perfect"), JKBJHSYB, December 20, 1985, p. 2.

Clearly, firm control was the main theme in family planning policy at the end of 1985.

That message had already been received at the provincial level. In November and December 1985 numerous local news items on family planning repeated the injunction "strictly control population growth" over and over again and demanded stronger leadership, a firm grasp, thorough implementation of policies, and the "resolute" curbing of "unplanned" and "excessive" births.[180]

Official anxiety about the birth peak increased in 1986. In January it was announced that, according to the Seventh Five-Year Plan, "family planning must be placed in a more important position" and "population growth must be resolutely and strictly controlled,"[181] and these demands were thenceforth echoed in provincial pronouncements.[182] In March a national family planning meeting adopted a proposal which said:

> With the beginning of the Seventh Five-Year Plan period, family planning work in our country has entered into a new, important stage in which there may be another record number of births. We must grasp production and family planning while building material

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[180] "Fujian fushengchang Chen Mingyi tichu ding shengchan jihua yao zhongshi renjun chanzhi" ("Fujian Lieutenant Governor Chen Mingyi Proposes That Production Plan Attach Importance to Per Capita Output Value"), JKBJHSYB, November 1, 1985, p. 1; "Shanqu gexian yao jianjue kongzhi renkou mangmu zhengzhang" ("Counties in Mountainous Regions [in Ningxia] Must Resolutely Control Their Blind Increase in Population"), JKBJHSYB, November 1, 1985, 1; Taiyuan radio, Shanxi Provincial Service, November 11, 1985, JPRS, No. 85-118, December 11, 1985, p. 113; Kunming radio, Yunnan Provincial Service, December 3, 1985, JPRS, No. 86-013, January 24, 1986, p. 141; Shenyang radio, Liaoning Provincial Service, December 11, 1985, JPRS, No. 86-009, January 20, 1986, p. 99; Nanjing radio, Jiangsu Provincial Service, December 13, 1985, JPRS, No. 86-009, January 20, 1986, p. 49; "Heilongjiang sheng jisheng gongzuo huiyi jiejie shiji wenti" ("Heilongjiang Provincial Family Planning Work Conference Resolves Practical Problems"), JKBJHSYB, December 13, 1985, p. 1; "Guojia jishengwei yaoqiu geji lingdao jishi liaojie qingkuang renzhen jiejue wenti" ("The State Family Planning Commission Demands That Leadership at All Levels Solve Problems Earnestly"), JKBJHSYB, December 20, 1985, p. 1; Chengdu radio, Sichuan Provincial Service, December 29, 1985, JPRS, No. 86-013, January 24, 1986, p. 86; Jinan radio, Shandong Provincial Service, December 30, 1985, JPRS, No. 86-016, February 3, 1986, p. 64; and Wuhan radio, Hubei Provincial Service, December 30, 1985, FBIS, No. 200, January 2, 1986, p. P3.

[181] Guo Wensheng, "Daoli yu shishi" ("Principles and Facts"), JKBJHSYB, January 24, 1986, p. 3.

[182] "Shoudu renkou xu jixu jiaqiang kongzhi" ("Beijing's Population Needs Continuing Control"), JKBJHSYB, January 24, 1986, p. 3; Zhao Yugui,

> and spiritual civilization. We must unswervingly practice family planning as our basic national policy in order to keep the population under control and to improve its quality.[183]

In its commentary on the meeting, the People's Daily called on leaders of the Party and government to "implement the spirit of Document No. 7," which had been reinterpreted to emphasize "effective control over population growth" and the fulfillment of the Seventh Five-Year Plan targets based on the target of "under 1.2 billion" in the year 2000.[184]

Early in the year, the feeling in official circles about the likelihood of meeting these targets was still ostensibly as optimistic as in 1985. In February, the New China News Agency announced that, according to the SFPC, the national population at the end of 1985 was 1,046 million, 14 million less than the 1,060 million target set in the Sixth Five-Year Plan, and that the Commission was confident that China would achieve its goal of keeping

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"Anhui shengwei fushuji Xu Leyi zhichu yao caiqu youxiao cuoshi...") "Deputy Secretary Xu Leyi of the Anhui Provincial Party Committee on Adopting Effective Measures"), JKBJHSYB, January 24, 1986, p. 1; Li Laiyou, "Jihua shengyu gongzuo yao zhua dao dianzi shang" ("Family Planning Work [in Gansu] Must Be Carried Out Firmly at the Local Level"), JKBJHSYB, January 24, 1986, p. ; "Tianjin Li Ruihuan shizhang qiangdiao jihua shengyu gongzuo buneng fangsong" ("Tianjin Mayor Li Ruihuan Stresses That Family Planning Work Cannot Be Relaxed"), JKBJHSYB, January 31, 1986, p. 1; Nanning radio, Guangxi Regional Service, February 21, 1986, JPRS, No. 86-032, March 25, 1986, p. 94; Guiyang radio, Guizhou Provincial Service, February 22, 1986, JPRS, No. 86-032, March 25, 1986, p. 95; "Shanghai shunli wancheng 'liu-wu' renkou guihua" ("Shanghai Successfully Fulfills the Sixth Five-Year Plan for Population"), JFRB, February 25, 1986, p. 1; Lu Meiqiang, ("Chairman of the Guangxi Zhuang Autonomous Region, Wei Chunshu, Points Out That the Zhuang Nationality Region Must Control Population Growth"), JKBJHSYB, March 21, 1986, p. 1; Taiyuan Radio, Shanxi Provincial Service, March 22, 1986, JPRS, No. 86-040, April 11, 1986, p. 75; Xining radio, Qinghai Provincial Service, April 13, 1986, FBIS, No. 72, April 15, 1986, p. T2; Huang Jialiang, "Sichuan xianxing zhengce fuhe shiji" ("Current Policy in Sichuan Fits the Realities"), JKBJHSYB, April 25, 1986, p. 1; Lanzhou radio, Gansu Provincial Service, May 24, 1986, FBIS, No. 103, May 29, 1986, p. T1; Guangzhou radio, Guangdong Provincial Service, June 1, 1986, FBIS, No. 106, June 3, 1986, p. P3; Nanning radio, Guangxi Provincial Service, June 29, 1986, FBIS, No. 128, July 3, 1986, p. P2; Guiyang radio, Guizhou Provincial Service, July 3, 1986, FBIS, No. 130, July 8, 1986, p. Q1; and Changchun radio, Jilin Provincial Service, July 16, 1986, FBIS, No. 137, July 17, 1986, p. S3-4.

[183] XINHUA, Beijing, March 4, 1986, JPRS, No. 86-036, April 7, 1986, p. 89.

[184] Bai Jun, "National Meeting to Commend Advanced Units and Individuals in Family Planning Ends, Calls for Continued Efforts in Family Planning," RMRB, March 5, 1986, FBIS, No. 48, March 12, 1986, p. K16.

the population under the 1.2 billion mark by the year 2000.[185] Some provinces reported the overfulfillment of their own Sixth Five-Year Plan targets.[186] Although the task in the Seventh Five-Year Plan period was expected to be much more difficult, the authorities did not change the provincial population growth targets that had been based on the 1.2 billion in the year 2000. According to the draft Seventh Five-Year Plan, the national population was to be kept "within 1,113 million" as of the end of 1990, and the average national growth rate was to be limited to around 12.4 per thousand per year.[187]

Some provinces announced new targets for 1986 and 1990 and reaffirmed the old targets for the year 2000. Hunan demanded that the provincial natural increase rate be kept below 9 per thousand during the Seventh Five-Year Plan period.[188] Guizhou told its cadres they must "strive" to control the natural increase rate at under 10 per thousand in 1986, increase the "planned birth rate" to 70 percent, and reduce the percentage of

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[185] XINHUA-English, Beijing, February 23, 1986, FBIS, No. 40, February 28, 1986, p. K23.

[186] Shandong said that its natural increase rate dropped to 9 per thousand, below the target figure of 10.05; Sichuan claimed that its yearend 1985 total was some 2.75 million less than the planned target; Qinghai, with a much smaller population, was 20,000 below the stipulated figure; Liaoning had 780,000 fewer births than the plan allowed; Shanghai had 157,000 and Zhejiang 360,000 fewer births during the period than "the quota assigned by the state." See Sun Nianjiu, "Shandongsheng zhaokai jihua shengyu gongzuo huiyi" ("Shandong Province Convenes Family Planning Work Conference"), JKBJHSYB, January 31, 1986, p. 1; Wen Xuan, "Sichuan Achieves Marked Success in Controlling Population Growth," SCRB, February 21, 1986, FBIS, No. 49, March 13, 1986, p. Q1; Shenyang radio, Liaoning Provincial Service, February 25, 1986, JPRS, No. 86-037, April 8, 1986, p. 108; Xining radio, Qinghai Provincial Service, March 3, 1986, FBIS, No. 43, March 5, 1986, p. T2; "'Liu-wu' qijian Shanghaishi bi jihua shao sheng shiwu wan duo ren" ("Shanghai Municipality Had More Than 150,000 Fewer Births Than Planned During the Sixth Five-Year Plan"), JKBJHSYB, May 2, 1986, p. 1; and "'Liu-wu' qi jian Zhejiang shao sheng san-shi-liu-wan yu ren" ("During the Sixth Five-Year Plan, Zhejiang Had More Than 360,000 Fewer Births"), JKBJHSYB, June 6, 1986, p. 3. Exceeding quotas and targets is a often attempted by local leaders in China, who gain special recognition, awards, and advancement in return for their performance, but their efforts to impress their superiors also increase the pressure on the lower level cadres and the people.

[187] XINHUA-English, Beijing, April 3, 1986, FBIS, No. 66, April 7, 1986, p. K15.

[188] Changsha radio, Hunan Provincial Service, January 20, 1986, JPRS, No. 86-018, February 13, 1986, p. 81.

"excess" births to 15 percent.[159] Shanxi was committed to keeping its natural increase rate below 10.5 per thousand during the Seventh Five-Year Plan period and limiting the population to about 27.6 million by the end of 1990.[160] Qinghai was to keep its population under 4.47 million by 1990.[161] Shanghai said that during the Seventh Five-Year Plan period its natural increase rate "must be controlled at 6.5 per thousand."[162] Sichuan ViceGovernor Liu Chunfu confidently restated his province's long-established goal of keeping the population under 120 million by the year 2000.[163]

However, discouraging reports continued to come from some of the provinces. Anhui noted a slackening of effort and fear of difficulties among the cadres in some areas, causing an upswing in the birth rate, the numbers of unplanned second births, and the numbers of "excessive" births, and added that early marriage and childbearing were a serious problem.[164] A survey in Shaanxi found that "the proportion of early marriages is still high and the number of excess births is considerable," and a subsequent report said the reason was that the cadres were "afraid of confusion" and were "seeking stability" instead of enforcing family planning policies.[165] Sichuan reported that in some areas the numbers of "unplanned" pregnancies and births had increased compared with 1985 and that the proportion of couples accepting one-child certificates had declined.[166] Hunan reported a "rising trend of having an additional child."[167] Guangdong said that there were "many instances" of rural women having second children "in excess of the plan" and that "state cadres, workers, and urban residents [who were not eligible for second births under current policies] were also starting to press for the birth of a second child."[168] Guizhou detected signs of a rise in the birth rate.[169]

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[159] Guiyang radio, Guizhou Provincial Service, February 22, 1986, JPRS, No. 86-032, March 25, 1986, p. 95.

[160] Taiyuan radio, Shanxi Provincial Service, March 22, 1986, JPRS, No. 86-040, April 11, 1986, p. 75.

[161] Xining radio, Qinghai Provincial Service, April 13, 1986, FBIS, No. 72, April 15, 1986, p. T2.

[162] "'Liu-wu' qijian Shanghaishi..," loc. cit.

[163] XINHUA, Chengdu, March 27, 1986, JPRS, No. 86-045, April 21, 1986, p. 35.

[164] Zhao Yugui, "Anhui shengwei fushuji Xu Leyi..," loc. cit.

[165] Zhang Zhiqiang, "Guojia tongjiju zai Shaanxi jingxing shengyu qingkuang diaocha" ("State Statistical Bureau Conducts Fertility Survey in Shaanxi"), JKBJHSYB, February 21, 1986, p. 1; and Sun Huilian and Liang Naizhong, "SHaanxi wanshan shengyu zhence zuochu xin guiding" ("Shaanxi Province Formulates New Regulation to Make the Birth Policy More Perfect"), JKBJHSYB, April 25, 1986, p. 1.

Meanwhile, surveys of desired family size in various parts of the country showed that a significant proportion of the population, especially in rural areas, still wanted two or more children. Some of the studies seem to have been designed to show support for official policies, but even so the persistence of traditional preferences is evident in the reported results. A Zhejiang study used a "sample" of 1,571 unmarried young people in the ages 15 to 30, of whom only 237 were "ordinary peasants," yet even in this highly urban group 28 percent wanted to have two children.[170] A survey of one-child households in the rural suburbs of Tianjin Municipality found that "about 80 percent" of them hoped to have two children and that some of them had only accepted one-child certificates because they felt they "had no choice but to follow the main trend."[171] A survey in Beijing reportedly showed that "less than one-third of the young people in the city proper want to have two or more children," but another in Sichuan found that 65.9 percent of the Han people wanted two children, 82.9 percent of Sichuan's Tibetan minority also wanted two, and 75 percent of its Yi minority wanted at least three.[172] If anything, public opinion surveys taken in a country such as China, where the wishes of the authoritarian government are well known and dissenting opinions are liable to lead to investigation, will probably understate the extent of popular disagreement with official policies. Hence the results of these surveys demonstrate conclusively that, contrary to frequent Chinese claims, the one-child limit does not reflect the wishes of the masses.

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[166] Huang Jialiang, loc. cit.; and Huang Jialiang, "Sichuan dusheng zinu lingzhenglu xiajiang youguan bumen dui ci ying yuyi zhongshi" ("Sichuan's One-Child Certificate Acceptance Rate Is Declining; Relevant Departments Should Pay Attention to This Situation"), JKBJHSYB, June 13, 1986, p. 1. Couples with one child who pledge not to have another are awarded "one-child certificates" which entitle them to various kinds of preferential treatment and awards.

[167] Changsha radio, Hunan Provincial Service, May 28, 1986, FBIS, No. 104, May 30, 1986, p. P3.

[168] Guangzhou radio, Guangdong Provincial Service, June 1, 1986, FBIS, No. 106, June 3, 1986, p. P3.

[169] Guiyang radio, Guizhou Provincial Service, July 3, 1986, FBIS, No., 130, July 8, 1986, p. Q1.

[170] Chen Jialin, "Research Survey on the Motives and Needs of Unmarried Youth to Have Children," RKYJJ, No. 3, June 25, 1985, JPRS, No. 85-116, November 29, 1985, pp. 47-55.

Another perennial problem that had become more acute was the falsification of statistical data on plan fulfillment by local cadres and officials. The problem seems to be endemic to the Chinese administrative system and affects all kinds of statistical data. Diatribes against falsification of economic statistics go back to the 1950s. Complaints about falsified family planning data have been recurrent at least since 1980.[173] Recent news items suggest that the problem has become more acute as the pressures on the cadres for attainment of targets have increased. In 1984 there were only a few such reports in the Chinese media.[174] In 1985 reported instances became more numerous.[175] The problem was evidently considered serious enough by the central authorities for the SFPC to issue a circular in July 1985 which acknowledged that "underreporting and misreporting of statistics is fairly severe in some areas" and said that "the main reason is to gain honor by cheating."[176] A report from Liaoning Province in August was more explicit about the reasons:

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[171] Ling Baicen, "An Investigation on the Childbearing Situation Among One-Child Specialized Households in the Rural Suburbs of Tianjin Municipality," RKYJ, No. 4, July 29, 1985, JPRS, No. 85-118, December 11, 1985, pp. 108-109.

[172] XINHUA-English, Beijing, April 9, 1986, JPRS, No. 86-051, April 30, 1986, p. 79.

[173] See John S. Aird, "Recent Demographic Data from China: Problems and Prospects," Joint Economic Committee, Congress of the United States, China Under the Four Modernizations, Part 1, U. S. Government Printing Office, Washington, DC, August 13, 1982, p. 203. A general discussion of falsification in Chinese statistics and the underlying causes follows on pp. 204-213 of this volume.

> ...Some units, in reporting to superiors on birth rates and rates of natural increase, reported what was pleasing and not what was unpleasing, and the circumstances of deception were rather serious. ... There are two reasons for this deception: 1) The thinking guiding the affairs of the...birth planning committee is not sufficiently correct. In order to compete for top place throughout the province and ensure that they are progressive, they have year after year, when transmitting instructions, raised the quota to where it is not in keeping with reality. 2) A minority of basic-level cadres, in order to get money awards, have taken the incorrect approach of "concealing information" and "giving false information."[177]

An article in the national family planning journal in November 1985 added that

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[174] For example, "Banjiang Xiang nongxu zuojia manbao chusheng renkou" ("Banjiang Township Resorts to Deception to Conceal the Numbers of Births"), JKBJHSYB, August 10, 1984, p. 3; and "Shijiazhuang diqu jishengwei zai zhengdang zhong jiuzheng jihua shengyu tongji bushi wenti" ("Shijiazhuang Prefecture Family Planning Commission Corrects the Problem of Untruthful Family Planning Statistics During Party Rectification"), JKBJHSYB, December 12, 1984, p. 1.

[175] "Zhuren gai shuzi" ("The Director Changed the Numbers"), RMRB, January 29, 1985, p. 1; Chen Yubao, "Zenyang zuohao jihua shengyu tongji gongzuo" ("How to Do Well in Family Planning Statistical Work"), JKBJHSYB, February 1, 1985, p. 3; "Zhongxiang xian tongbao piping Duanji Xiang yinman duotai" ("Zhongxiang County Issues Circular Criticizing Duanji Township for Concealing Excessive Births"), JKBJHSYB, February 8, 1985, p. 1; Xu Daihuang, "Yingdang dui tamen jinxing yange peixun" ("They Should Be Given Strict Training"), JKBJHSYB, February 15, 1985, p. 3; and "Yanting xian quanmian jiancha jihua shengyu gongzuo" ("Yanting County Conducts Countywide Inspection of Family Planning Work"), JKBJHSYB, December 20, 1985, p. 1.

[176] "Guijia jihua shegyu weiyuanhui fachu tongzhi yaoqiu gedi renzhen fuze zuohao jihua shengyu tongji gongzuo" ("State Family Planning Commission Issues Circular to Demand that All Areas Take Responsibility for Conscientiously Doing Family Planning Statistical Work Well"), JKBJHSYB, July 26, 1985, p. 1.

[177] Xiu Guojin, "One Must Reveal His Own Shortcomings and Speak the Truth; It Is Strictly Forbidden to Falsify and Exaggerate," Liaoning ribao (Liaoning Daily), Shenyang, August 6, 1985, JPRS, No. 85-116, November 29, 1985, p. 88.

> A few leadership persons in the pursuit of a name for themselves do not put effort into their work but instead work on the data which they report to their supervisors. Some of the family planning cadres are afraid that they will be reprimanded if they fail to report the truth to their supervisors, and yet they are [also] afraid that if they report the truth they will be given "tight shoes" to wear by the local government leadership.[178]

In January 1986 a letter to the same journal said that some local leaders advise their cadres to report fewer births on the grounds that this will make things easier at the time of yearend evaluations.[179] In March another letter writer said that a survey in his area had found a "shocking" number of omissions and concealments of births. The cause of the problem, he said, was some "leadership comrades" seeking "fame and compliments" and awards.[180] The central authorities have no way of determining the extent of falsification in family planning statistics or the margin of error in the reported data, but they seem to think that the problem is serious enough to affect the accuracy of official data on fertility.[181]

Besides these problems, Chinese demographers continued to warn the authorities about the forthcoming birth peak. One eminent demographer pointed out that fertility levels in China were already low and that further declines would therefore be more difficult to achieve.[182] In April three writers in the national family planning journal estimated that within the next 11 years 230 million children would be born if women entering the

[178] He Guangrong, "Zuo shishi jiang shihua bao shishu" ("Do Real Work, Tell the Truth, and Report True Figures"), JKBJHSYB, November 11, 1985, p. 3.

[179] "Renkou tongji ying qiushi" ("Population Statistics Should Seek Facts"), JKBJHSYB, January 24, 1986, p. 3.

[180] "Bixu tujie xubao renkou chusheng shuzi de xianxiang" ("Falsification of the Numbers of Births Must Be Eliminated"), JKBJHSYB, March 21, 1986, p. 3.

[181] In August 1986 a Beijing newspaper said "According to statistics, the total fertility rate of Chinese women was 2.2 in 1985. However the actual rate would exceed 2.2 if falsification and omissions were taken into account." See "Rubu yange kongzhi ben shiji mo zhongguo renkou jiang tupo shisanyi" ("Without Strict Control, the Chinese Population Will Exceed 1.3 Billion by the End of This Century"), Gongren ribao (Daily Worker), Beijing, August 3, 1986, p. 4.

[182] Tian Xueyuan, Director, Population Research Center, Chinese Academy of Social Sciences, "Renkou zaishengchan leixing de zhuanbian he renkou de shuliang kongzhi" ("Changes in the Pattern of Population Reproduction and Control of the Size of the Population"), JKBJHSYB, February 21, 1986, p. 2.

childbearing ages were assumed to have an average of 1.2 children each. This, they said, would mean that the natural increase rate would rise and the national population total would reach 1.2 billion before the year 2000.[183] In the same month Deng Xiaoping explained to Japanese Prime Minister Fukuda that "the implementation of strict control over population growth" was in China's best interests and that the country was "striving" to control the population at 1.2 billion by the end of the century.[184] But in May, another article in the national family planning journal called attention to the inertial property of demographic phenomena and seemed to question whether the goal could be attained.[185]

Party Document No. 13

In response to the growing uncertainty about the effectiveness of local family planning efforts, the prospects for eradicating traditional values about childrearing among the people, and the likelihood of achieving the population targets in the Seventh Five-Year Plan, the central authorities launched a new policy initiative. In May 1986 they adopted and disseminated a new set of guidelines called Party Central Committee Document No. 13, superseding Document No. 7 of April 1984.

Once again, the text of the new statement has not been made public, but several descriptions of its contents and a few quotations from the document itself have become available as of this writing. On June 13, 1986, the national family planning journal described a recent circular by the SFPC which "demanded that all areas study and implement Document No. 13 conscientiously." The circular noted that Document 13 "affirms the achievements of family planning work during the Sixth Five-Year Plan period in controlling population, improving workstyle, building closer relations between the Party and the masses, promoting stability and unity, and socialist construction," which means that the Party leaders do not acknowledge any policy mistakes in the previous five years. Apparently summarizing the message of Document No. 13, the article continues:

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[183] Li Yamo, Wang Chengjin, and Sun Shoubao, "Zuohao jihua shengyu gongzuo bimian shengyu gaofeng changfu" ("Do Well in Family Planning Work to Avoid a Repeat of the Birth Peak"), JKBJHSYB, April 11, 1986, p. 2.

[184] "Jihua shengyu ke shi zhongguo gengkuai fada qilai" (Family Planning Will Enable China to Become Prosperous More Rapidly"), RMRB, April 24, 1986, p. 1.

[185] Zhang Xinxia, "Xinde shengyu gaofeng de tedian jiqi duice" ("The Characteristics of a New Birth Peak and Countermeasures"), JKBJHSYB, May 9, 1986, p. 2.

> The Party Central Committee in particular points out that during the Seventh Five-Year Plan period, the population will be in the midst of a birth peak. Party committees at all levels must strictly control population growth, must not lower their guard and become negligent, must conscientiously sum up experiences, overcome defects, solve problems, and continuously make their birth control policies better.

The article adds that Central Committee Document No. 13 is "of very great significance in giving guidance,"[186] which serves notice that provincial and local policies must conform to it.

In July another article quoted Document No. 13 as follows:

> During the Seventh Five-Year Plan period, there is likely to be another period of population birth peak. Party committees and governments at all levels must attach great importance to and continue to strengthen leadership over this work. They must never lower their guard and become negligent. Population growth must be strictly controlled.[187]

In August a third article quoted the Document as stating that

> A policy which is favorable to controlling population growth and which can be accepted by the masses by means of education must be formulated based on reality.[188]

A fourth article cited several instructions in Document No. 13 relating to the strengthening of family planning cadre ranks and organization:

> Document No. 13 points out that "the building of family planning cadre ranks must be truly strengthened," and that "cadres who are resolute in executing the Party's guidelines and policies, who have an upright work style, who know the business, and who are devoted to this work must be promoted. The leadership of family planning work organs at all levels must be consolidated and

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[186] "Guojia jishengwei fachu tongzhi yaoqiu renzhen xuexi guance zhongyang shisanhao wenjian jingshen" ("State Family Planning Commission Issues Circular on Conscientiously Studying and Implementing the Guidelines of Document No. 13 of the Party Central Committee"), JKBJHSYB, June 13, 1986, p. 1.

[187] Zhao Yugui, "Dai you zhanluexing de da zhengce" (An Important Policy of a Strategic Nature"), JKBJHSYB, July 25, 1986, p. 2.

[188] Commentator, "Zhengce, guihua yu shengyuguan" ("Policy, Planning, and Views on Having Children"), JKBJHSYB, August 22, 1986, p. 1.

> strengthened." ... Document No. 13 also points out that "the organizational structure must be strengthened."[189]

In September, two other direct quotations from Document No. 13 appeared in the national family planning journal:

> Document No. 13 states that "Party committees and governments at all levels must attach importance to supervising departments of health, civil affairs, planning, finance, medicine, industry, and commerce; labor unions, Communist Youth Leagues, and women's associations and take family planning work as one of their important tasks. They must furnish the necessary manpower, materials, and technical skills to reach the population control targets stipulated in the Seventh Five-Year Plan together with family planning departments." This requires that we take more initiative and perform the services well.[190]

> Document No. 13 states that "those areas and units which are trailing behind must adopt effective measures to catch up in their family planning work."[191]

Toward the end of December 1986, a provincial source disclosed that Document No. 13 contained six major instructions, which it elaborated in some detail. The first was to strengthen leadership and control fertility strictly to eliminate birthpeaks during the Seventh Five-Year Plan period. The second was to focus family planning efforts on rural areas and especially on units where the work is lagging. The third was to "start from reality and formulate policies that are conducive to controlling population growth and are acceptable to the absolute majority of the masses after education." The fourth was to strengthen research, investigation, and statistical analysis. The fifth was to strengthen family planning organizations and improve the quality of the cadres. The sixth was to strengthen coordination between departments in support of family planning work. The emphasis throughout was on getting results and attaining targets.[192]

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[189] Commentator, "Qieshi jiaqiang jihua shengyu ganbu duiwu de jianshe" ("Truly Strengthen the Building of the Ranks of Family Planning Cadres"), JKBJHSYB, August 29, 1986, p. 1.

[190] Commentator, "Rang quan shehui guanxin yu ge bumen xiezuo" ("To Let the Entire Society Be Concerned and Collaborate with Other Departments"), JKBJHSYB, September 12, 1986, p. 1.

[191] Commentator, "Zhuanbian houjin xu yu 'fu pin' xiang jiehe" ("The Transformation of Backwardness Must Be Linked with 'Helping the Poor'"), JKBJHSYB, September 19, 1986, p. 1.

The issuance of Document No. 13 was followed by reports from the provinces that they were studying the statement and taking action to implement it. Before the end of June, Anhui Province had held a meeting of directors of prefectural and municipal family planning commissions for this purpose.[193] On June 29 the Nanning radio station broadcast a report of a speech by a Guangxi official calling for study and implementation of Document No. 13, in which he said that it "sums up the situation and basic experiences in birth control work during the Sixth Five-Year Plan, points out the existing problems, and also gives views on further improving birth control work during the Seventh Five-Year Plan."[194] From July onward, similar announcements were made in Sichuan, Tianjin, Hunan, Hebei, Shaanxi, Harbin Municipality, and Guangxi,[195] and other provinces announced measures to tighten up their birth control work without specifically ascribing them to Document No. 13. Among the recurrent demands in the local dispatches were the familiar injunctions to "strengthen leadership," "grasp the work firmly," insist on the one-child limit, use IUDs for women with one child, sterilization for couples with two or more children, and mandatory abortion for unauthorized pregnancies, and meet the population targets for the Seventh Five-Year Plan period. Here are some examples:

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[192] Wang Mingyuan, Hebei Provincial Family Planning Commission, "Guance zhongyang 13 hao wenjian zonghe kaolu zhibiao, zhengce he gongzuo wenti" ("To Implement Document No. 13 of the Party Central Committee and to Give Overall Consideration to the Norm, Policy, and Tasks of Family Planning"), RKYJJ, No. 6, December 25, 1986, pp. 3-6, 27.

[193] "Anhui sheng jishengwei zuzhi de shi jishengwei zhuren jiehe bendi shiji yanjiu guance yijian" ("Anhui Provincial Family Planning Commission Organizes Prefectural and Municipal Family Planning Commissions to Study Means of Implemention by Linking It with Local Realities"), JKBJHSYB, June 27, 1986, p. 1.

[194] The official also reiterated the "3-no-change" principle that had been mentioned in several local news dispatches during the past two years and is apparently reaffirmed either in the SFPC circular or in Document No. 13 itself: No change in birth control as a basic state policy; no change in the one-child policy; and no change in the goal of 1.2 billion by the year 2000. See Nanning radio, Guangxi Regional Service, June 29, 1986, FBIS, No. 128, July 3, 1986, pp. P2-3.

[195] "Sichuan shengwei lingdao qiangdian luoshi coushi" ("Sichuan Party Committee Leadership Stresses the Implementation of Measures"), JKBJHSYB, July 4, 1986, p. 1; "Tianjin shiwei yaochiu quanshi wushiwan dangyuan shenti lixing daidong qunzhong" ("Tianjin Party Committee Demands that 500,000 Party Members of the Municipality Set Personal Examples to Lead the Masses"), JKBJHSYB, August 8, 1986, p. 1; Song Ganheng, "Hunan caiqu cuoshi shazhu renkou huisheng shitou" ("Hunan Adopts Measures to Check the Upswing of Population"), JKBJHSYB, August 22, 1986, p. 3; Yin Su, "Hebei shengwei sheng zhengfu yaoqiu geji lingdao zhongshi jisheng gongzuo" ("Hebei Party Committee and Government Demand that Leadership at All Levels Attach Importance to Family Planning Work"), JKBJHSYB, August 29, 1986, p. 1; Liang Naizhong, "Shaanxi sheng ba zhongyang jingshen he gexiang cuoshi

> The meeting demanded that the province get a still better grasp of birth control work, bring population growth control onto the track of economic development, and continue to control the province's population growth. [Anhui][196]
>
> The provincial family planning conference...stressed: We should never ignore family planning work and should firmly grasp it. In the future our province should continue to advocate the one-couple, one-child policy and to strictly control the excessively rapid increase in population. [Jilin][197]
>
> ...Place the control of population growth at the forefront and...change the backward situation [that exists] in 40 percent of the [local] areas. [Hunan][198]
>
> At the provincial family planning work conference [it was] pointed out that we should continue to strictly control population growth... ...We should thoroughly and deeply grasp basic family planning work. ... We should firmly foster the idea of strictly controlling population growth...and strive the make a new change within this year to fulfill the population control task assigned by the provincial Party committee and the provincial government. [Shandong][199]
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> [Lt. Governor] Wang Zuwu demanded at the meeting that the Party and government leadership at all levels attach great importance to

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luodao shichu" ("Shaanxi Province Carries Out the Guidelines of the Party Central Committee and Various Measures in Earnest"), JKBJHSYB, August 29, 1986 p. 1; Kang Zizhen, "Harbin shi jueding jianli jihua shengyu gongzuo lingdao xiaozu" ("Harbin Municipality Decides to Establish Family Planning Work Leadership Team"), JKBJHSYB, October 17, 1986, p. 1; and Lu Qiang, "Guangxi tongzhi gedi renzhen jiancha zhixing zhiding de jihua shengyu guiding" ("Guangxi Notifies All Areas to Check Conscientiously the Family Planning Regulations Formulated Locally"), JKBJHSYB, November 7, 1986, p. 1.

[196] Guiyang radio, Anhui Provincial Service, July 3, 1986, FBIS, No. 130, July 8, 1986, p. O1.

[197] Changchun radio, Jilin Provincial Service, July 16, 1986, FBIS, No. 137, July 17, 1986, p, S3.

[198] Liang Yi, "Hunan sheng shengwei sheng zhengfu yaoqiu tongguo nongcun zhengdang niuzhuan luohou jumian" ("Hunan Provincial Party Committee and Hunan Provincial Government Demand that the Backward Situation Be Turned Around by Means of Party Rectification in Rural Areas"), JKBJHSYB, August 15, 1986, p. 1.

[199] Jinan radio, Shandong Provincial Service, August 17, 1986, FBIS, No. 159, August 18, 1986, p. O4.

> the matter and strictly control population growth resolutely and relentlessly. [Hebei][200]
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> Hubei's population must be kept below 26 million by the end of 1990. ... Strictly ban...the birth of a second or [additional] child not included in the plan without any exceptions. This means that for quite a long time to come, both in the urban and rural areas a couple can have only one child. [Hubei][201]
>
> [The Shaanxi] provincial authorities have decided that from the middle of [October] to the end of November, the activities of publicizing the documents from the central authorities on firmly grasping birth control and taking remedial measures should be extensively carried out in all urban and rural areas throughout the province All prefectures and cities must really strengthen leadership...[202]
>
> From now to the end of this century, Sichuan must control planned parenthood work, not relax it.[203]
>
> ...The Party committee and government of the Guangxi Region recently issued a joint circular which stressed that "currently the state's family planning policy's principal content is to promote universally one child per couple, late marriage, late birth, and to strictly prohibit unplanned second births, excessive births, and the opening of 'crooked gaps.'"[204]
>
> Assistant Secretary Yue Qifeng of the Hebei Provincial Party Committee said...that couples with two or more children should undergo sterilization... Those for whom IUDs are suitable should be fitted [with them] and those who are unable to use IUDs must sign a contract to use other forms of contraception and be subjected to periodic inspections. ... Those who have unplanned pregnancies must be resolutely subjected to remedial measures.[205]
>
> ...If we do not step up family planning work, population will surely get out of control. ... We must mobilize the masses to vigorously and conscientiously implement the measures for birth

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[200] Yin Su, "Hebei shengwei sheng zhengfu yaoqiu geji lingdao zhongshi jisheng gongzuo" ("The Hebei Provincial Party Committee and Government Demand that Leadership at All Levels Attach Importance to Family Planning Work"), JKBJHSYB, August 29, 1986, p. 1.

[201] Wuhan radio, Hubei Provincial Service, September 26, 1986, FBIS, No. 189, September 30, 1986, p. P4.

[202] Xian radio, Shaanxi Provincial Service, October 13, 1986, FBIS, No. 198, October 14, 1986, p. T3. No central document reaffirming the demand for mandatory abortion ("remedial measures") has been made public as of this writing, however this source reveals that such a document has been issued.

[203] Chengdu radio, Sichuan Provincial Service, November 1, 1986, FBIS, No. 215, November 6, 1986, p. Q2.

[204] Lu Qiang, loc. cit.

[205] Yin Su, "Hebei shengwei fu shuji Yue Qifeng shuo zhua jihua shengyu yao jianding buyi jianchi buxie" ("Assistant Secretary Yue Qifeng of the Hebei Provincial Party Committee Says that Family Planning Must Be Carried Out Firmly and Relentlessly"), JKBJHSYB, November 21, 1986, p. 1.

control and remedial measures.[206]

Meanwhile, the national family planning journal carried articles addressed to the whole country in which the escalation of family planning demands was apparent. In June a plenary session of the SFPC over which Wang Wei presided was told that because the fulfillment of the Seventh Five-Year Plan targets would be "very difficult," "family planning work must be firmly grasped...and not be slackened..."[207] In July another article in the same journal asserted that "the population problem is one of the most acute problems in the world" and, taking Anhui as an example, warned that

> "If the policy were not carried out with effort, the number of births would exceed the projected number. The target of controlling the provincial population at 61 million by the end of this century as decided upon by the State would come to naught. This grim reality shows that family planning is inevitable. It may only be carried out firmly and cannot be slackened. We must resolutely carry out the population policy formulated by the Party Central Committee and the State Council. We must exert our efforts to take charge relentlessly...and have steadfast confidence in fulfilling the Seventh Five-Year population plan.[208]

In August, with a forthrightness that is unusual in domestic communications and even rarer in Chinese statements for foreign consumption, the journal acknowledged that

> ...The population policy created to fulfill this population plan has met with interference from the old views of having children which has had an influence over the masses for thousands of years. Thus, a contradiction has appeared between birth policies and the masses' wishes about having children.[209]

But the article made it clear that the wishes of the masses were not to be allowed to deter family planning work, because "Our government recognizes from grim reality that birth planning is related to important matters of national wealth and strength, the prosperity of the people, and family happiness." Hence the work must be pushed forward now and in time the masses would come to accept it:

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[206] Kunming radio, Yunnan Provincial Service, January 5, 1987, FBIS, No. 4, January 7, 1987, p. Q2.

[207] "Guojia jihua shengyu weiyuanhui weiyuan xuexi qiangdiao renkou zengzhang xu yange kongzhi" ("Members of the State Family Planning Commission Study the Document and Stress the Importance of Strict Control of Population Growth"), JKBJHSYB, June 27, 1986, p. 1.

[208] Zhao Yugui, "Dai you zhanluexing de da zhengce" ("An Important Policy of a Strategic Nature"), JKBJHSYB, July 25, 1986, p. 2. The article also quoted earlier statements by Deng Xiaoping in defense of China's population policy, including one in April at a meeting with Japanese Prime Minister Fukuda in which Deng reaffirmed the goal of keeping the population total under 1.2 billion by the end of the century.

[209] Commentator, "Zhengce, guihua yu shengyuguan" loc. cit.

> The contradiction between birth policies and the wishes of the masses is not permanent and is not without a solution, because China's population plan and population policy represent the fundamental interests of the people. Following economic and cultural development and the penetration of family planning work, contradictions will gradually be resolved.[210]

In September another article, citing the coming birth peak, the loss of control over population growth in "a few areas," and the concern about exceeding the target population total of 1.2 billion in the year 2000, reiterated the new hard line on family planning:

> Fundamentally, from now to the end of this century, family planning work is not to "relax" but to "control." In other words, we must resolutely control the rate of population increase.[211]

In October an article in the People's Daily repeated the reasoning behind the new urgency attached to enforcement of family planning requirements:

> At present our family planning work is still facing a stern situation. This is because the coming 10 years and more between now and the end of this century will be a crucial period for our economic development. At the same time it will be a period of another baby boom in our country. Whether we can strictly control population growth will directly determine whether we can smoothly achieve our economic development objectives by the end of this century. In order to ensure the overall interests of our nation, we must continue to do effective work to tighten birth control so as to keep our country's population below 1.2 billion people by the end of this century.[212]

In December Wang Wei drew attention to the "grim reality" facing family planning work in China, and added that population growth had been accelerating since the beginning of 1986 and that the number of births in 1986 would be a million greater than in 1985, and Premier Zhao Ziyang warned family planning officials they must find better ways to control population growth.[213] In January 1987 family planning officials in one province linked family planning work to the campaign to "combat and repudiate bourgeois liberalization,"[214] thus identifying the tightening of control over family planning with the crackdown on political freedom following the student demonstrations of December-January. These instructions indicate that the escalation of requirements that has been going on since the spring of 1985 is to be continued in the future.

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[210] Ibid. The article clearly intends that propaganda to change the opinions of the masses is to be combined with efforts to achieve control of population growth, but it also makes clear that the "small contradiction" between the masses and the authorities over family planning cannot be allowed to interfere with the solution of the "large contradiction" between population growth and economic development. In other words, contradictions between the masses and the policy must be resolved in favor of the policy.

[211] Zhang Jiaqiang, "Bixu jin yibu kongzhi renkou zengzhang" ("A Further Step Must Be Taken to Control Population Growth"), JKBJHSYB, September 12, 1986, p. 2.

[212] Commentator, "It Is Still Necessary to Grasp Birth Control Tightly and Well," RMPB, October 23, 1986, FBIS, No. 209, October 29, 1986, p. K7.

Conclusions

The evidence from domestic Chinese sources makes it quite clear that the relaxation of family planning policies instituted in 1984 was slight and that the program remains highly coercive. The additional categories of couples allowed a second child affect very few families. The rest are still strictly held to the one-child limit. Unauthorized second births are still not allowed and third and higher order births are still "absolutely prohibited." The requirements that women with one child have IUDs inserted, that couples with two or more children be sterilized, and that unauthorized pregnancies be aborted have been retained, although some areas permit couples to use other contraceptive methods so long as they adhere effectively to the prescribed limits on childbearing. There is a somewhat greater emphasis on the use of propaganda and persuasion and the use of tactics that "the masses can accept," but the emphasis has once again shifted from "workstyle" to concrete results. Admonitions against "coercion and commandism" are once more in abeyance. The national, provincial, and local population targets based on the goal of keeping the population of China under 1.2 billion by the year 2000 are to be enforced, and the demands that targets be fulfilled have become more insistent since the fall of 1985.

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[213] XINHUA, Beijing, December 3, 1986, FBIS, No. 234, December 5, 1986, pp. K11-12.

[214] Nanjing radio, Jiangsu Provincial Service, January 17, 1987, FBIS, No. 20, January 30, 1987, p. O1.

- Because the goals of the program are in conflict with the values of the Chinese people, the increased pressures on the cadres to meet their targets will oblige them to increase the pressures on the people. These are the circumstances which have heightened the coerciveness of family planning work in the past, and they can expected to have the same effect again.

Attempts by Chinese officials and by foreign apologists to represent recent changes in China's family planning policies as a major relaxation of program requirements do not accord with the facts. The Chinese program remains highly coercive. Individuals and organizations that laud the Chinese program or provide financial or technical assistance that helps it attain its objectives place themselves in the position of implicitly approving its methods and condoning the violations of human rights that inevitably result from those methods.

RECENT TRENDS IN CHINA'S FAMILY PLANNING PROGRAM

Since AID Administrator McPherson decided last August to withhold U. S. funding from the UNFPA because of its support for China's coercive family planning program, some apologists for the program have alleged that it has recently been getting less coercive and that U. S. funding for the UNFPA should therefore be restored. This conclusion is in conflict with the evidence from China. The coerciveness of China's family planning policies was only slightly moderated after it reached a peak in 1983, and since the spring of 1985 central demands and pressures, which are the cause of coercion in the program, have been escalating once more.

In 1983 the central authorities demanded that all married women with one child have IUDs inserted, all couples with two or more children be sterilized, and all unauthorized pregnancies be aborted. The policy was vigorously implemented, as official family planning statistics show, but the tactics used aroused strong popular resentment.

As it had done after previous coercion peaks in 1979 and 1981, the Party Central Committee, took steps to dissociate itself from the excesses caused by its 1983 policies and blame them on the local cadres. In April 1984, it issued "Document No. 7," which warned against using coercive tactics, urged the local family planning cadres to be "fair and reasonable" and improve their "workstyle," and slightly increased the categories of persons allowed to have a second child. But the document also insisted that the work was not to be relaxed and that targets must be met. The contradictory instructions confused the local cadres, who relaxed their grip on family planning. The numbers of IUD insertions, sterilizations, and abortions dropped sharply in 1984.

By August the central authorities realized what was happening and began to insist that the cadres resume the pressures on the people and firmly implement the one-child policy. In December 1984 central concern again shifted to avoiding coercion and the consequent "alienation of the masses from the Party," but by February 1985 central directives once again emphasized fulfilling targets and preventing unauthorized births. At the local level, these shifts added to the confusion and further weakened family planning efforts. This was not what the central authorities intended. They began to call for "strengthening leadership," getting a "firm grasp" on family planning, and preventing unauthorized births. During the summer of 1985, further warnings against coercion were issued along with warnings against relaxing the policies, but the main emphasis was on the need for "strict control of population growth." It was reported that birth rates in some areas were rising, that the limits on second births had been eased too much, and that unauthorized pregnancies were not being terminated.

By the fall of 1985 the authorities became deeply concerned about the fact that, because of high birth rates in the 1960s, a bulge in the Chinese age structure was now about to enter the ages for marriage and childbearing. They feared that a new "baby boom" would make it difficult to attain the low population targets laid down in September 1985 in the Seventh Five-Year Plan (1986-90), which included a national limit of 1.113 billion for 1990 that was consistent with the long-established objective of keeping the national total under 1.2 billion by the year 2000. Since then, concern about coercion has virtually disappeared from official instructions on family planning.

The hardening of the line was confirmed in May 1986, when the Party issued a new set of guidelines, "Document No. 13," in which the major emphasis is on strengthening family planning organs, maintaining the one-child limit, focussing efforts on rural areas and especially units which are lagging in family planning, delaying marriage and childbearing, prohibiting unauthorized births, and meeting targets. Since then the 1983 rules requiring IUDs for women with one child, sterilization for couples with two or more, and abortion for unauthorized pregnancies have been reaffirmed. In January one province linked the current crackdown on family planning with the crackdown on "bourgeois liberalism," the Chinese expression used since the student demonstrations of December and January to denounce Western democratic ideas. Recent dispatches also demand that family planning policies be "stabilized," which means that that the present hard line on family planning is to be maintained without further interruptions for some time to come.

If the U. S. Administration and the Congress still believe that coercion in family planning is inconsistent with prevailing American values and that organizations which support China's coercive program should not be given public funds, this is not the time to change our position in regard to AID funds for the UNFPA. To resume such funding when the Chinese program is becoming more coercive would signify that we do not really care very much about violations of human rights in family planning. Surely this is not the kind of signal the majority of our people would want our government to send to the rest of the world.

PREPARED STATEMENT OF SENATOR DANIEL J. EVANS

Mr. Chairman, I appreciated receiving a copy of your letter to Senator Chiles, Chairman of the Budget Committee concerning the estimated spending levels for programs and activities under the jurisdiction of the Committee. I, too, recognize the fact that the Committee is at the beginning of our review process. Nonetheless, I believe that it is terribly important that we do not abrogate our responsibility as the authorizing committee to set out for the Budget Committee what we believe to be a legitmate budget mark. I believe that it is essential that the Foreign Relations Committee take the lead in assuring that the Gramm-Rudman deficit reduction process does not gut our foreign policy initiatives.

Last year the foreign assistance budget suffered tremendously: the foreign affairs account was hit harder than any other account in our government. The 150 Account received a severely reduced allocation under the Budget Resolution for FY87. I'm certain the Secretary will agree that the budget restrictions imposed on our foreign assistance program makes it virtually impossible for the United States to meet its foreign commitments and responsibilities. American interests abroad demand that we provide more assistance than we are now giving.

It is my understanding that, in the past, this Committee has filed detailed, substantive reports to the Budget Committee, although this has not been the case in recent years. Mr. Chairman, I for one, would like very much to work with you in developing such a report. I appreciate your desire to reach consensus among Committee members on issues of such importance and I suspect the task in this case might be formidable. Nonetheless, I believe it would be possible to reach a consensus among the members on this issue, an issue that goes to the very heart of our repsonsibilities as a Committee.

I'm certain each member of the Committee has his or her own ideas about what such a report should include. I would note several areas that, at a minimum, bear discussion. One is our efforts in Central America, another is the Philippines. A proposed "reform" of our military sales program, a reform of some merit, was rather inelegantly and most inappropriately raised by the Appropriations Committee last year the debate on the Continuing Resolution. I note the Chairman's intention to address this issue in detail during the course of our deliberations on the foreign aid program. Still, it might be useful to convey that intention to the Budget Committee and to any other committee contemplating such legislation.

I wonder whether the Chairman might be willing to convene a session of the Committee so that we might develop a substantive report that could be presented to the Budget Committee. I'm certain that given the importance and complexity of our foreign aid program, the Budget Committee would welcome a report from this Committee, even if it is somewhat delayed.

PREPARED STATEMENT OF GEORGE P. SHULTZ

Mr. Chairman, Members of the Senate Foreign Relations Committee:

I welcome this opportunity to meet with the Committee today because I want to impress upon you my deep concern over one of the most immediate -- but perhaps least recognized -- foreign policy challenges before us. We face a serious foreign affairs budget crisis. If left uncorrected, it will directly threaten our ability to exercise coherent and consistent foreign policy leadership in support of our national interests.

In the five years I have been in this job, I have rarely felt as strongly about a subject as I do about this one.

Overall, our foreign affairs situation is promising. As a nation, we have powerful advantages with which to influence world affairs to our benefit. We have rebuilt our military strength so that we can more effectively defend our interests and discourage others from violence. Our diplomacy is active in seeking practical, negotiated solutions to strengthen the peace. And we have allies with whom we share common purposes and ever more effective cooperation.

We are moving forward in the world. And yet, as we head into the third consecutive year of underinvestment in our foreign affairs efforts, the U.S. is putting itself in a position of retreat.

Any strategy to advance our interests in the world is only as good as the tools provided for us to work toward its objectives. And today, I have to tell you that we are fast approaching a dangerous situation in which the U.S. will not have all of the foreign policy tools needed to get the job done.

The Foreign Affairs Resource Crisis

Our current foreign policy efforts must operate in the context of the last two years' major cuts. Last January, our international affairs budget for FY '87 was cut by the Congress by over 20 percent, reducing our operating base by $1.8 billion. After accommodating earmarked items which had to be funded, the effective reduction for the bulk of our operations was more on the order of 50 percent. And that was on top of the $1.5 billion cut from the previous year's levels that we suffered in the FY '86 Congressional appropriations process.

Consequently, we have lost over $3.3 billion from the resources we were operating with in FY '85. But these drastic reductions were not generated through any careful determination of national priorities.

They didn't reflect any lessening in the importance or number of foreign policy challenges that this nation faces in the world. These cuts were more severe, in percentage terms, than the reductions in any other function in the President's budget requests. And for our key posts in Europe and Japan, their effect has been even more damaging as a result of the recent decline in the dollar.

What does this mean in practical terms? These drastic, indiscriminate budget reductions are essentially forcing us to play Russian roulette as we shortchange our various foreign policy interests. They have seriously impaired our ability to provide necessary economic and military support for allies and friends in need. By doing so, they risk our continued access to vital military bases and facilities overseas that would require tremendous expenditures to replace. They signal --

correctly or not -- a declining U.S. interest in supporting our friends and allies in strategically important regions.

And the effects of these cuts go further. They hamper our war on terrorists. They restrict our attempts both to promote democratic values and reforms overseas, and to expand trade and develop jobs at home.

And by forcing us to close overseas posts and to curtail necessary training, they are weakening not only our career Foreign Service, but the government's very ability to follow, analyze and understand developments in a fast-changing international environment.

So my message on this is simple: Short-sighted attempts at blanket economizing in our various foreign policy programs are not without a price themselves. Indeed, they may turn out to be very expensive. Over the longer-term, they may cost us dearly in lost opportunities and new dangers, in money, in jobs, and even in lives.

Positive Trends

There is a special irony that we should have to wrestle with the question of American disengagement and retreat from the world -- which is precisely what these budget cuts represent -- at the very moment when our emphasis should be on keeping up the momentum of existing policies. We should be building upon the progress we have made in recent years, and capitalizing on opportunities before us.

Drawing upon a broad and bipartisan consensus, the United States under President Reagan's leadership has made important headway over the past six years.

We have worked with allies and friends to make the world a safer, more secure place -- one in which our peoples can live and prosper under freedom.

Our efforts to foster a growing and open world economy are showing results. Negotiations have begun in Geneva on rules that will support trends in agriculture, services, and other areas where the US is strong. More countries are recognizing that foreign investment is a valuable source of management skills and private capital. Bilateral Investment Treaties have been negotiated with ten countries to help ensure fair and stable treatment of U.S. investors. They merit prompt and favorable action by this Committee.

And there are increasingly clear signs that strategic trends are in our favor. There is a real and growing movement toward expanded political and economic freedom in the world -- provided the U.S. continues to lend its decisive support.

Today, we are experiencing a scientific and technological revolution -- one whose dramatic social, economic, political and strategic consequences are only just beginning to emerge. Time and space are contracting as instantaneous communications make business, politics and culture truly global for the first time.

Familiar measures of a nation's economic development -- and by extension, military and political strength -- are becoming outdated. These developments have already begun to change world politics and economics.

The world that is being shaped by this new Information Age has the potential to play to our greatest strengths as a society. Freedom, openness and diversity are the wellspring of technological creativity. The future competitiveness of nations will be increasingly shaped by their free and decentralized use of knowledge, rather than through concentrations of labor and natural resources. In such an environment, open societies such as our own should have the chance to thrive, while closed societies will have to adapt drastically or fall behind.

This lesson -- of the power and creativity unleashed by freedom -- is increasingly apparent throughout today's world. We see its evidence not only among the countries of the West, but in various developing nations of Asia, Africa and elsewhere as well. The advantages that democracy and free enterprise can bring are being implicitly acknowledged even in the Communist world, in their own efforts to attain some measure of economic reform through experimentation with greater openness and decentralization.

And as a consequence, the great ideological struggle that has marked this century's foreign affairs ever since the Bolshevik Revolution has essentially been decided. In contrast with earlier decades, no one speaks anymore of communism as the wave of the future.

Foreign Policy Challenges

As a result, it is the Soviet Union's massive military establishment alone -- and not any inherent economic advantage or political appeal -- that underlies its status as a global competitor. The Soviet Union poses a clear and sobering strategic threat to the U.S. and its allies. It has the capability to intervene with conventional military force, directly or through proxies, in many regions of the world, and to threaten and try to intimidate our allies and friends in these areas. It commands a nuclear arsenal, and in particular, an offensive ballistic missile force, able to inflict massive destruction on the U.S. and our allies.

And so, we must be prepared to counter these military threats. We must be able to deter Soviet aggression against the U.S. or its allies, by whatever means. We must have the defensive strength necessary to deter the Soviet threat by clearly demonstrating that we and our allies would be able to respond instantly, and with enormous effectiveness, should we be attacked.

But this is not the only challenge that we and our allies face. In Central America, Afghanistan, Angola, Indochina and elsewhere, the rights of freedom and national self-determination are under direct assault. Conflicts and tensions in the Middle East and Southern Africa threaten stability and peace within their respective regions. The escalation of international terrorism and narcotics trafficking pose new and uniquely brutal threats -- not simply to the U.S., but to all civilized nations.

Within the developing world, the efforts of local governments to achieve economic and social improvements have been hampered by large foreign debt and disappointing growth rates. The transition to greater political freedom in many of these countries continues to be a fragile process.

And among the major industrialized democracies of the world, we confront persistent pressures for thinly-disguised protectionist measures. These would stimulate political confrontations among trading partners, and have the effect of dismantling the open world trading system of the past four decades.

America's Strengths

As a nation, we have the ability to meet these challenges -- but only if we are patient and persistent, and use our strengths and advantages wisely and effectively.

The first of those advantages is our democratic vision, and our commitment to give reality to our ideals. The effectiveness of our foreign policy reflects our confidence in our beliefs and values, and in our purposes and priorities as a society. Traditionally, people throughout the world have regarded America as a land of opportunity and looked to us for a vision of the future. They know that American society has its faults -- in part because we ourselves are always ready to proclaim them. Throughout our history, individual Americans have worked tirelessly to extend the promise of our beliefs to everyone, regardless of race, creed or class.

Last month, our nation paid tribute to one such American, Dr. Martin Luther King, Jr. Dr. King's legacy -- and the epic poem of the Black Civil Rights Movement -- have made America much stronger in the world: stronger in our own sense of solidarity as one people; and stronger as a precious source of hope -- realistic hope -- for oppressed people everywhere.

And we gain strength from our tremendous economic capabilities. Here again, we are perhaps too familiar with our own economic success story, or preoccupied with problems of the moment to sense our true power and potential. But America's economic capacity -- its ability to support ambitious national objectives, to advance the edge of technological creativity, and to support increased domestic prosperity -- can only be described as awesome.

Our national economy is enormous and sound -- over twice the size of any other. But our government is running a massive deficit. This federal budget deficit is a major problem for us -- it affects our ability to grow and to compete. It is a drag on all of our efforts, and we must address it promptly and effectively. I'm confident that we can. And by doing so, we will be better able to draw upon the powerful economic advantages that we possess in the pursuit of our foreign policy objectives.

And now, we are also benefitting from a renewed sense of hard-headed realism about the importance of our own military strength. A healthy American defense establishment serves as the indispensable underpinning for any American foreign policy seeking a safer world and a more durable peace.

Weakness invites challenges and intransigence; strength deters aggression and encourages restraint and negotiation on the part of our adversaries.

We already see the positive results of our renewed realism. The rebuilding of America's defenses in the early 1980s has given the Soviets the necessary incentive to begin serious negotiation, not just on limits to the future growth of our nuclear arsenals, but on their substantial reduction from current levels. Improvements in our ability to project power abroad have helped us protect our vital interests and defend our friends against subversion and aggression. And our willingness to use that power when necessary -- as against Libya, as a last resort after years of Qadafi's terrorism -- has sent a powerful signal to friends and enemies alike.

But we face entirely new threats to American interests as well -- and in today's world, these are often less clear-cut than the traditional examples of aggression we associate with World Wars I and II. And so we require not only the military capabilities, but also the patience and the flexibility necessary to deal with such problems as protracted armed subversion, state-sponsored terrorism, and the political disruption and violence associated with large-scale narcotics trafficking.

These new threats are sometimes referred to as "low-intensity conflict." As a former Marine, I don't like that term. There is nothing "low-intensity" about them for those who must join the battle; and the stakes of these challenges to the security of all of us are high.

If we are to be effective in addressing these threats -- as well as in deterring military aggression -- we have to be steady in supporting our commitments, and ready to act decisively when necessary. Our military must have the capabilities to perform a variety of missions across the spectrum of security challenges. But just as importantly, we have to show the political will needed to use our military strength intelligently and effectively in defense of our most vital interests. And we have to be clearly perceived by both friends and adversaries as having that will.

America's Diplomatic Tasks

Now let me turn to our diplomatic efforts. Americans have sometimes tended to think that power and diplomacy are two distinct and conflicting alternatives in our dealings abroad. But power and diplomacy are not contradictory. They are complementary; both are necessary and reinforcing components of our foreign policy. Military preparedness alone is not enough.

Our power must always be guided by purpose; and quite often, diplomacy is an essential and efficient means of accomplishing our objectives. Diplomacy is a cost-effective means of advancing our national interests and seeks to make less likely the possibility that we will have to fall back on military means to counter threats against us. Successful diplomacy encourages like-minded nations to join with us in common effort; and it brings a greater sense of predictability and stability to our relations with potential adversaries.

The U.S. could, of course, attempt to deal with the diverse threats to our interests on a unilateral basis -- but that would demand great effort and enormous expense on our part. There is a more efficient alternative, as we have agreed upon as a nation for more than four decades. Our diplomacy -- along with its various tools such as security assistance and economic support funding -- seeks to maximize our effectiveness in the world through cooperation with those nations with whom we share basic values and common interests.

If our diplomacy is to be effective, we cannot allow ourselves to lose our sense of focus on what we are seeking to achieve in the world, and what is required to reach those ends. It would be all too easy for us as a society to become distracted from what is truly important and at stake in the most urgent foreign policy challenges now facing us.

The first such challenge lies with our firmness and reliability in promoting the cause of democracy, national self-determination, and individual freedom in various parts of the world. In some cases -- as in the Philippines today -- this will involve our continued support and assistance for the efforts of the Filipino people to strengthen democratic institutions in the face of a bitter Communist insurgency and economic problems. It is in our strategic interest to do all we can to support President Aquino's government in promoting democracy, stability and prosperity to the Philippines.

In South Africa, this will require our active engagement with all parties in an effort to persuade them that dialogue and negotiation -- rather than an escalation of violence -- are the only paths to the prospering, color-blind democracy South Africans yearn for.

We will need to work with our allies to help the Front Line States accelerate policy reforms, promote intraregional trade, and achieve the transport security necessary for their continued survival and development in association with the West.

Where necessary -- as in Central America -- we must be prepared to assist friendly governments in dealing with externally-generated threats to their political stability. We desire a peaceful and negotiated resolution to such regional tensions, and will work actively to those ends. But we should never forget that the firmness of our support for threatened democratic governments is a necessary incentive for potential aggressors to refrain from threats and attempts at subversion.

Today, we also see the power of the idea of freedom calling into question the assumption of the inevitable permanence of dictatorships of the left in various countries. The brutal and continuing Soviet occupation of Afghanistan; the dependence of leftist governments in Angola and Cambodia on extensive Cuban and Vietnamese military support for their existence; and the deepening oppression of the Sandinista regime in Nicaragua that has betrayed the original democratic promise of that nation's revolution -- all of these events have given rise to resistance movements in their respective countries. These men and women are struggling for the rights denied them by Communist rule. And as such, they deserve our support.

We should be under no illusions. Over the longer-term, our reliability in supporting those who believe in freedom in the face of Communist totalitarianism is an important element in ensuring our own security. It encourages our friends, and gives our adversaries a reason for restraint. And conversely, if we fail to support those struggling for freedom in their own country, we will only face more daunting challenges to our own security over the longer-term.

The second pressing challenge is that of our response to terrorism. In recent years, we have seen new and ever more virulent forms of this modern-day barbarism. Quite simply, terrorism is war. It's a shadow war involving direct and brutal assaults on the lives of our citizens, on our national interests overseas, and on our basic values.

We have to win this war. But to do so, we must be prepared for a long, tough effort. It's inevitable that, as a people, our hearts go out to the individuals directly affected by terrorism, and to their families and friends here at home. But we cannot allow our sympathies to overshadow the pressing need for us to stand firm behind our principles, and to deny international terrorism further leverage against us.

Our foremost priority must continue to be to demonstrate through word and action that there are no rewards for terrorist violence. We have to redouble our cooperative efforts with other nations in dealing with this scourge.

The third pressing challenge we face lies with the management of our relations with the Soviet Union. The Soviet

Union poses the primary threat to our security, yet our two countries share a basic interest in ensuring that -- as the President and General Secretary Gorbachev agreed at their Geneva Summit in 1985 -- "a nuclear war can never be won, and must never be fought."

In our dealings with the Soviet Union, we have pursued a four part agenda of issues that are important to us, including arms control, regional conflicts, bilateral matters, and human rights. In the field of arms control, the President's discussions with General Secretary Gorbachev at Reykjavik last October revealed potential areas of agreement on substantial and verifiable mutual reductions in offensive nuclear weapons that would enhance strategic stability. We are committed to pursuing these opportunities at the negotiating table, even as we will also continue our efforts -- consistent with the ABM Treaty -- to research ways of strengthening that stability through greater reliance on defenses. Both efforts are complementary and necessary.

But to suceed, we need a sustained effort that is firm, realistic and patient. We can't afford to become either disheartened or euphoric with each week's news out of Moscow. Agreements for their own sake are of no interest. It is the content that counts. Nailing down the details of any meaningful agreement with the Soviets will take time and tough negotiating. And for that sort of negotiating to be successful, we have to be prepared to take the necessary steps to keep America strong.

This Year's Foreign Affairs Budget Request

And keeping America strong in the world -- and in particular, conducting an effective foreign policy -- is going to take resources. Which brings me back to my starting point, and the critical importance of providing sufficient budgetary support to attain our foreign policy objectives.

Mr. Chairman, I want to say a few words here about the activities of the entire International Affairs Budget function. I realize that parts of this function are not within the jurisdiction of this Committee. Nevertheless, it is important for the members of this Committee to get the full picture of how all of our programs fit together in pursuit of our foreign policy and national security objectives.

Last month, the President submitted the Administration's FY 1988 and FY 1987 supplemental requests to the Congress for the Foreign Affairs budget. For FY 1988, the budget request for the International Affairs function is $19.1 billion. Because this is a net figure, the total appropriations request is $19.6 billion, about $1.6 billion below our FY 1987 request.

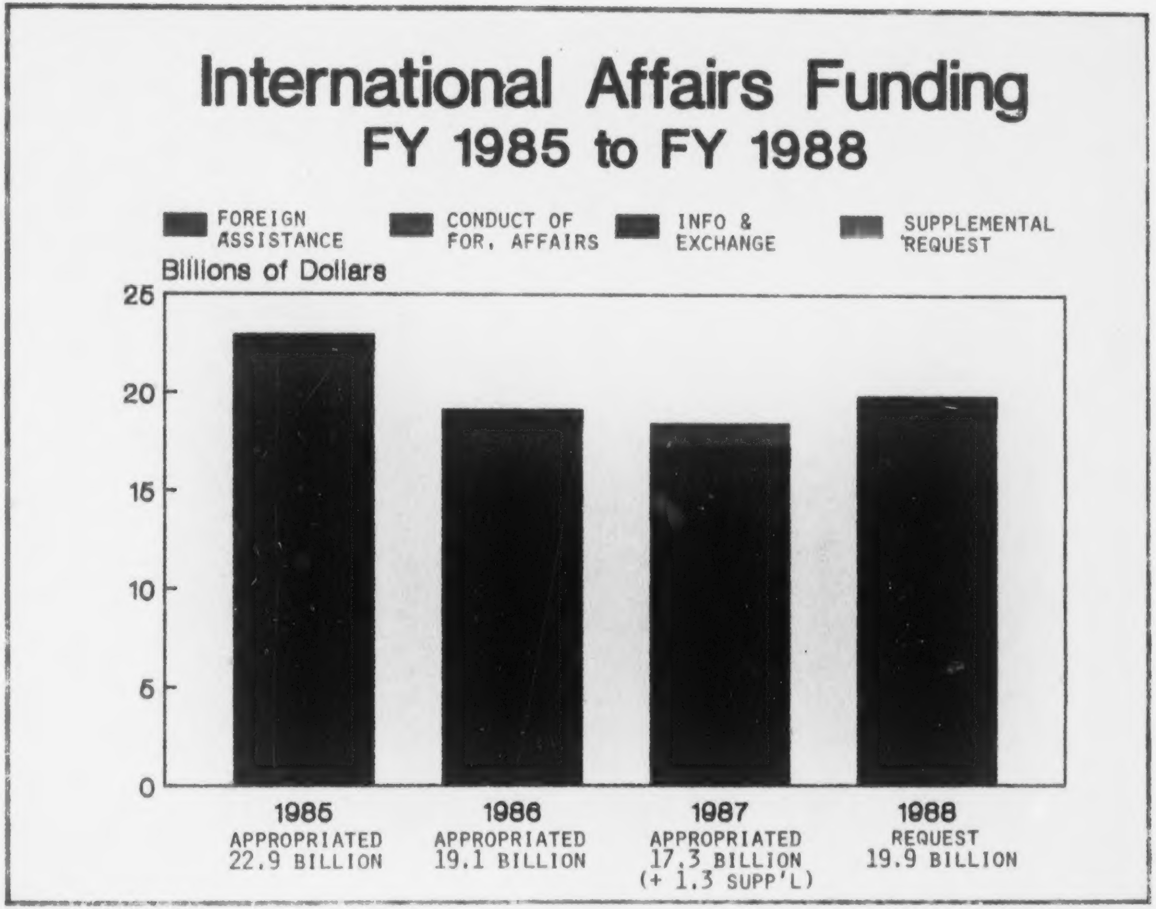
Of that amount, $15.2 billion is for foreign assistance. Just about half of this goes for a few major commitments. As in the past, the largest single component is the $5.3 billion for Israel and Egypt -- 35 percent of the total. Assistance to four NATO Allies -- Spain, Portugal, Greece, Turkey -- and the Philippines -- accounts for $2.1 billion, or 14 percent. Central America and the Caribbean represent $1.4 billion, or 9 percent. Of the remainder, assistance to Pakistan, Thailand, Kenya, Somalia, Tunisia, Jordan and Morocco takes another $1.2 billion, or 8 percent. Our request for Africa is $895 million, or 6 percent of the total. This includes $500 million for the New Development Fund for Africa. All other country programs constitute $1.2 billion, or 8 percent of the resources requested.

In addition, the foreign assistance request includes $1.8 billion in contributions to the multilateral development banks, and $1.3 billion for such items as AID non-country programs, voluntary contributions to international organizations and programs, narcotics control efforts, the Peace Corps and refugee assistance.

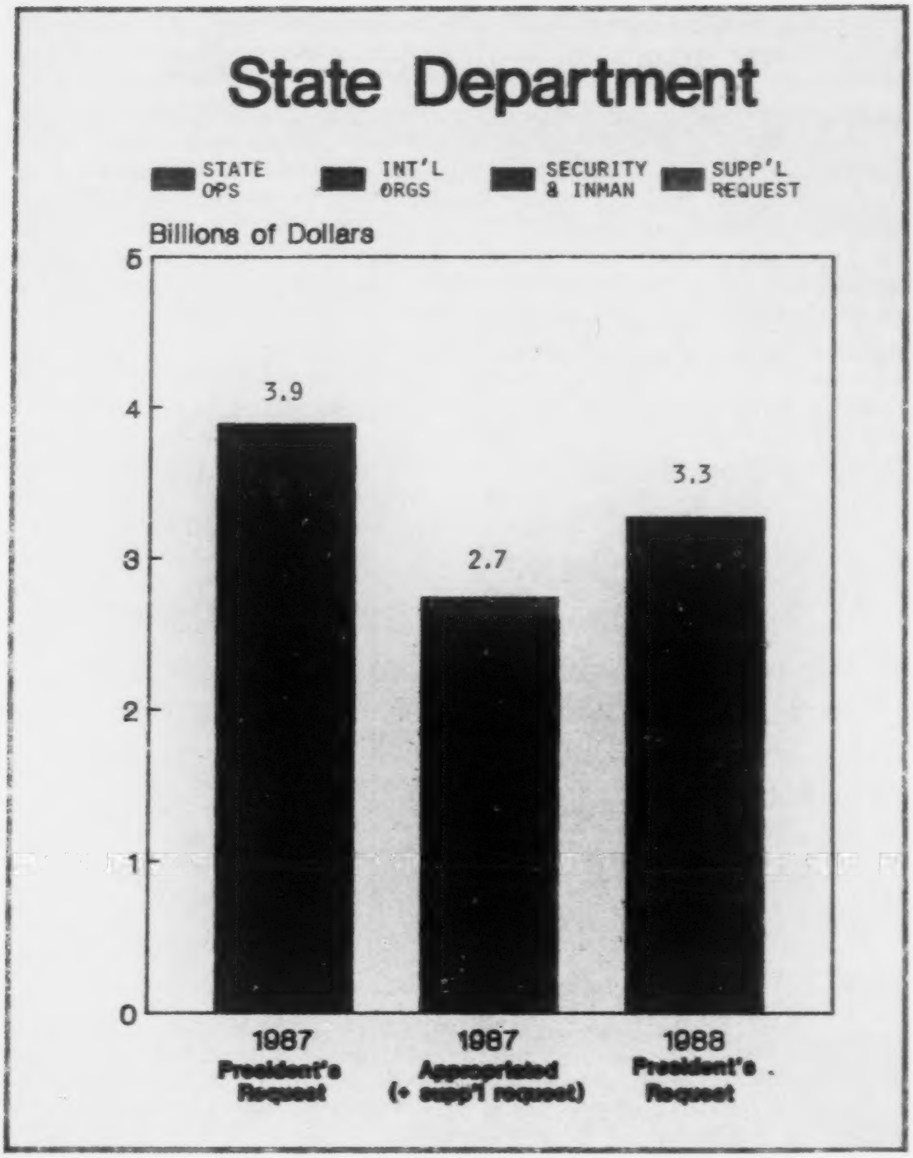
The remaining $4.4 billion we seek in 150 appropriations finances the operation of the Department of State, USIA, and the Board of International Broadcasting, as well as our assessed contributions to international organizations. Last December, armed with the clear requirements of Congressional action, we succeeded in having the United Nations take what the President has described as an "historic step to adopt sweeping reforms of its organization and methods of operation...designed to strengthen the organization's effectiveness and efficiency in carrying out its important political, economic, and social objectives." To follow through on these important reforms, we need the continued active support of the Congress. Finally, we seek a direct lending program of $1 billion for the Export-Import Bank to help fight our trade deficit.

We are also seeking, on an urgent basis, $1.3 billion in supplemental funds in FY 1987. These supplemental funds will help meet critical unexpected needs, major shortfalls from absolutely essential projects where there are firm commitments to key allies, and projects which Congress has asked us to consider and fund -- such as economic aid for the Central American democracies.

Mr. Chairman, I would be happy to take the Committee's questions on specific aspects of this request. Before doing so, however, I would stress that this budget is not a pie-in-the-sky wish list. It reflects a number of painful choices we had to make as part of our contribution to the deficit reduction target. Our total request amounts to less than two cents of every dollar proposed to be spent by the federal government. To my mind, our efforts to achieve a safer, more prosperous future are well worth that sort of investment.



International Affairs Funding
FY 1985 to FY 1988


State Department
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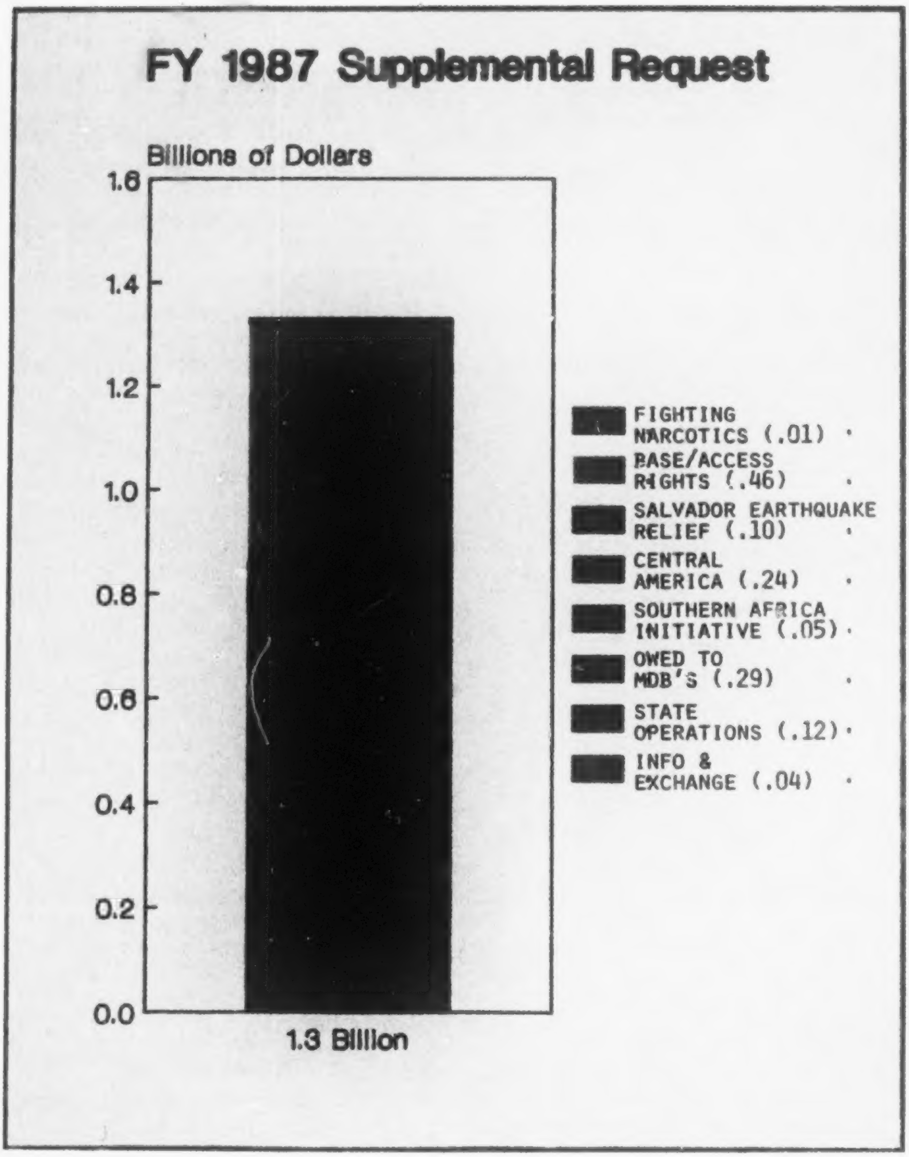
1987 Appropriated (+ supp'l request)
1988 President's Request



FY 1987 Supplemental Request

(Dollars in Millions)

Country	FY 1987 Request	FY 1987 Allocation	Shortfall
Israel	3,000	3,000	0%
Egypt	2,372	2,306	3%
Turkey	970	593	39%
El Salvador	514	416	19%
Pakistan	666	639	4%
Greece	500	344	31%
Spain	412	113	73%
Honduras	248	183	26%
Philippines	228	332	+46%
Portugal	224	147	34%
Sudan	223	69	69%
Jamaica	162	73	55%
Costa Rica	187	115	38%
Morocco	154	106	31%
Thailand	135	74	45%
Jordan	135	56	59%
Dominican Republic	122	74	39%
Peru	101	30	70%
Tunisia	94	51	46%
Oman	59	15	75%
Other Sub-Saharan Africa	952	644	32%
Other Latin American	686	398	42%
Other Asian	394	92	77%
MDB's	1,392	950	32%
Misc. programs and adjustments	2,236	2,707	
TOTAL FOREIGN AID	16,166	13,527	16%

LETTER FROM ALFRED H. KINGON

February 23, 1987

Dear Senator Helms:

I have your letter of February 17 regarding the State Department's proposal to purchase an official Secretarial residence. I have endeavored to gather the information in response to your questions and in addition to my own letter I am attaching a memo prepared by OMB. Another memo from the State Department was delayed by the government closing today. I am told it will be ready tomorrow, and I will forward it to you.

As best as I can ascertain the request for an official Secretarial residence is a request of the State Department only. The Administration as such has not made that request and there appears to be no intention to do so.

I will try to answer your questions individually.

1. The Secretary has reported that he has discussed this matter with the President and some on the White House staff. I have checked with several of my colleagues here in the White House. None of us, including the Chief of Staff, is aware of any Presidential directive regarding the Secretary's request for an official residence.

2. There are no Administration guidelines but the State Department apparently estimates project costs of approximately $1.6 million for the construction of a 7000 square foot residence.

3. I am aware of no other Cabinet members who are seeking residences or who intend to do so.

4., 5. I am advised by the State Department that all contributions will be by private donors, a trust fund established for the upkeep and maintenance of the house and staff, no public monies are planned to be involved, and all contributions would be consistent with all current laws regarding conflict of interest.

6. Regarding your question concerning operating and maintenance costs it is, as I stated, State's intention to have trust funds set up that would provide for the maintenance of staff and upkeep.

As I have indicated this request is a State Department initiative. The Secretary has made it for what he and his staff believe to be compelling reasons regarding security and official duties that any Secretary of State must engage in. The Department believes that the modifications required of each Secretary of State's private residence would be costly, not efficient, and that a permanent residence would require only one-time changes and charges.

The Office of Management and Budget, reviewing the situation, has raised a number of objections which are detailed in the attached memorandum.

I hope my letter, the OMB memo, and the forthcoming State memo answer your questions and provide you and your colleagues with sufficient information to make a determination regarding the State Department's request.

If you have any other questions, please let me know.

Sincerely,

Alfred H. Kingon
Assistant to the President and
Secretary of the Cabinet

MEMORANDUM FOR: ALFRED H. KINGON
via: Joe Wright
FROM: W. Wayne Arny III

SUBJECT: Official Residence for the Secretary of State

The State Department seeks OMB clearance for a provision in its proposed 1988-1989 authorization bill that gives the Department authority to construct, or acquire by purchase or gift, a permanent residence within the District of Columbia for future Secretaries of State.

The provision, as drafted, states that no appropriated funds would be used to finance the construction or acquisition of a permanent residence. Funding for construction or acquisition of a residence would be provided by gifts which the Secretary may accept on behalf of the Department under the conditions set forth in the State Department Basic Authorities Act.

The Department has sought this authority in the past and has been denied by both OMB and the Congress. In the 1986-1987 State Department Authorization (P.L. 99-93) the Congress included a sense of the Congress provision that the United States should not accept a gift of any house or other place of residence for an official residence of the Secretary of State unless Congress has had an opportunity to review the proposed gift. Since the end of the 99th Congress State has lobbied members of its authorization and appropriation committees in an effort to assuage concerns about the appearance of impropriety or future financial obligations tied to an official residence. Secretary Shultz even invited members of Congress to his private residence last September to impress upon them the need for an official residence. In addition, the Department has been quietly looking into various sites for an official residence, including a $1.4 million dollar residence in Chevy Chase, Maryland. State Department staff have indicated that Secretary Shultz is adamant about including this section in the authorization bill that will be transmitted to the Congress. He views such a residence as his "legacy" to future Secretaries of State.

State's argument for the construction or acquisition of a permanent residence for the Secretary of State revolves around the high degree of security required by the Secretary. Currently, the Secretary's personal residence is protected by a Diplomatic Security Service detail which lives at the Secretary's residence. In addition, security equipment, costing up to $500,000 must be installed at the residence. State argues that converting the private residence of each Secretary of State is costly and not satisfactory and that a permanent residence would require only one-time security costs associated with the installation of the security equipment.

In his letter of February 17, Senator Helms raises a number of questions concerning an official residence for the Secretary. It is my understanding that the Department of State is preparing detailed responses to these questions. My staff, however, have provided me with the following information in response to Senator Helms' questions.

- Has the President been informed? To the best of my knowledge, the decision to propose an official residence was made by the Secretary of State.

- Are there any guidelines concerning the size or cost of the residence? Current Department estimates project costs of $1.6 million for the construction of a 7,000 square foot residence.

- Will other Cabinet members be authorized to acquire official residences? State's argument for an official residence for the Secretary is based on the premise that he has the highest visibility of any Cabinet member, and therefore, the greatest security needs. If the official residence were to be agreed to, there are no plans for other Cabinet members to have official residences.

- Are there restictions on contributions for an official residence? The Department would be limited by the authority to accept gifts in the State Department Basic Authorities Act.

- Who would pay for the operating and maintenance costs of the official residence? Any ongoing costs for operations and maintenance would be paid for from gifts as would any staff required to maintain the house.

State's request for a permanent residence for the Secretary of State raises the following points for consideration:

- The Department currently has excellent representational facilities located within the Main State Department building including the Diplomatic Reception Rooms on the eighth floor, and the reception areas of the Secretary and Deputy Secretary on the seventh floor. In addition, the Main State Building is an appropriate place to entertain given the security features installed by the Department.

- A permanent residence might set a bad precedent in that other Cabinet level officials, senior government officials, and congressmen might seek a permanent residence financed by private gifts.

- Unless closely regulated the construction or purchase of a permanent residence from private donations has the potential for abuse, or the appearance of impropriety.

- This provision would add significantly to the total compensation paid the Secretary of State at a time when raises for other government executives have been limited.

- Although State claims that a permanent residence would entail no cost for the government, presumably donations from private individuals or entities would be tax deductible.

- The Administration has been forthcoming in the past on other "personal projects" of the Secretary -- for example, $50 million has been included in 1989 for a new Foreign Service Institute Campus.

PREPARED STATEMENT OF JAMES A. BAKER III

Mr. Chairman and Members of the Committee, it is a pleasure to appear before you today to discuss our country's stake in international economic cooperation, the role that multilateral development banks can play in enhancing that cooperation, and the Administration's legislative proposals for the multilateral development banks.

Over the last four decades, this Committee has been at the center of forming a broad consensus on the goals of U.S. international economic policy: to promote and foster global economic growth and stability through facilitation of financial flows and international trade.

In discussing this goal, I think it helpful to remember why this consensus formed and why the United States has led the world in developing international institutions to fortify cooperation.

Many governments, including the United States, contributed to a deeper and longer world-wide depression in the 1930's by adopting isolationist economic policies. In an effort to stimulate domestic demand and employment, governments erected high tariffs and other barriers to protect their domestic producers from imports. They also undermined currency arrangements in an attempt to promote exports and generate jobs. These autarchic actions choked off international trade and capital flows.

The United States and its industrialized trading partners eventually recognized the self-destructiveness of these protectionist policies. The "wise men" of the era exerted extraordinary leadership to help create exceptional international rules and institutions. Their aim was to promote a more open international economy to recapture the higher living standard that trade and market driven investment make possible.

Their products were the Bretton Woods Institutions -- the World Bank and International Monetary Fund (IMF) -- and later, the General Agreement on Tariffs and Trade (GATT) and the regional MDBs.

The establishment of these institutions and the international rules they embody was an astounding accomplishment -- an historical watershed. But it was only the beginning. Another generation of leaders labored to make these institutions effective, responsive, and adaptive to new problems. Now, the next cadre must exert novel stewardship to keep these institutions moving forward and to ensure that their rules are operated fairly so as to maintain their legitimacy. The United States must be in the forefront of this strategic change.

As you know, in the first decades or so after World War II the United States carried much of the burden of promoting a liberal, open economic trading system. We instituted the Marshall Plan because the World Bank and IMF were too small and too new to deal with postwar reconstruction. The United States gave Europe and Japan time to phase out most of their quotas; U.S. foreign aid dwarfed that of the other countries capable of providing bilateral assistance; and the United States was a major market as war-torn countries restored their economic footing (although our trade was in surplus). Yet few would seriously argue that the benefits to U.S. national interests -- through higher living standards, expanded trade, and increased security resulting from the participation of sovereign states in a Western-led trading and monetary system -- did not heavily outweigh the costs.

Over past decades, largely at U.S. prompting, Europe and Japan have assumed a larger share of the financial burden of making the international economic system work; they have demonstrated a willingness to work cooperatively to try to secure balanced growth and prosperity. But they can and will do more if we can foster the proper incentives and spirit.

Over the past year and a half we have enhanced multilateral cooperation considerably. We have put in place new arrangements for closer economic policy coordination. We are making progress towards achieving increased and more balanced growth, as well as smaller trade imbalances. And we are implementing our debt strategy through close cooperation among debtor developing countries, the international institutions and the commercial banks. These mutual efforts -- and the U.S. leadership that drives them -- must continue and be extended if we are going to resolve the problems confronting the international economy.

The Debt Strategy: A Progress Report

Economic conditions in the industrialized countries (particularly the United States) have an enormous effect on the economies of developing nations. Conversely, their activity has an enormous impact on us. Restoring growth and resolving the debt problems of developing countries would bolster their capacity to import from the United States and others. But the success of the developing countries involves much more than high GNP statistics and servicing debt. Many are nurturing infant democracies and more tolerant political systems. Their people need support to sustain their efforts.

The Program for Sustained Growth represents the best hope for debt-burdened nations. Developing countries recognize the opportunities the strategy presents and are taking significant steps to reform their economies. The debt problems of these countries took years to develop; the solution will also take time. Nevertheless, we have achieved much in the last year and a half.

- Many debtor nations have taken important steps to increase domestic savings and foreign and domestic investment. They are also improving economic efficiency by privatizing public enterprises and encouraging the return of flight capital.

- The IMF has negotiated new standby programs with 8 of the 15 major debtors since October 1985, including new loan commitments of about $4.7 billion.
- The World Bank has negotiated $2.9 billion in new policy-based loans with 10 major debtors, and has discussions underway on nearly $5 billion in additional policy-based loans. Aggregate World Bank loan commitments to these debtors increased by 40 percent during its Fiscal Year 1986, and a substantially larger share of loans are now based on structural policy reforms.
- The commercial banks are also moving to make new loans available, as exemplified by the recent $7.7 billion package for Mexico, a $320 million new money package for Nigeria, and a $220 million oil facility for Ecuador. Nearly $70 billion in debt reschedulings have been negotiated with the major debtors since October 1985. A number of other financing packages and reschedulings are also now under discussion.

Interest rates are down nearly 5 percentage points since 1984, saving the major debtors over $13 billion in interest payments annually. Efforts are underway to achieve stronger growth in other industrial nations, and to open global markets through another round of multilateral trade negotiations.

This is a start -- a good one. We hope for further progress. But we must be realistic -- we must recognize that improvements will take time and will vary among nations. Their pace depends upon their own determination to implement growth-oriented reforms and the continued active support of the international community.

The essential point is that the programs the United States has proposed to address the problems confronting the international economy are working. However, if the United States is to continue to lead, if we are going to continue to address these problems, we must be willing to commit our fair share of the necessary resources.

Funding for International Affairs Is Important

The foreign affairs (or 150) account in the U.S. budget does not have large assemblies of vocal U.S. supporters because the effects on Americans seem less immediate and direct than those of domestic programs. But the domestic benefits of foreign affairs expenditures and funding for multilateral institutions are very real.

Countless American jobs and exports depend on the health of overseas markets. Countless more could be created if sustained growth and political stability take root in the developing countries.

Support for the foreign affairs account is also an important element of our efforts to secure global political and economic alliances. We cannot continue to renege on our international financial responsibilities and retain our position of global leadership. If we -- as a nation -- fail to support our own programs, and ignore or delay meeting our international commitments, the damage to U.S. national and economic security may be vast; that harm will not easily be undone.

It is in our own interest to continue to play a guiding role. To do so, we must provide adequate funding for foreign assistance.

If we diminish our leadership role in the international economic system, we risk the unity of purpose which has sustained the drive toward a more open international economy over many decades. The principles we have supported will be amended and qualified to the point of being meaningless, and the institutions we have built will be weakened considerably. As in the 1930's, once such fragmentation occurs, the cost of recovering a unity of purpose may prove very high.

Secretary Shultz, of course, will take the lead in presenting our foreign assistance proposals to you. I will limit my specific remarks to the multilateral development banks.

We hope this Committee will support the enactment of legislation to allow U.S. participation in several multilateral development bank agreements. These foreign assistance proposals are an integral part of the efforts of the international community to support sustained growth in developing countries and of the Administration's efforts to foster prosperity at home.

- First, we are requesting authorization for U.S. participation in the Eighth Replenishment of the International Development Association (IDA VIII).
- Second, we are renewing our proposal to participate in the establishment of the Multilateral Investment Guarantee Agency, under the auspices of the World Bank, to serve as an incentive to encourage private sector equity investments in developing countries.
- Third, we are proposing authorization of a $584.4 million share in the four year $3.6 billion replenishment of the Asian Development Fund.
- Fourth, we propose authorization of U.S. subscriptions to African Development Bank capital of $719.6 million, with $45.0 million paid-in, over five years as part of a $13 billion capital increase.
- Fifth, we seek your support for an amendment to the Articles of Agreement of the Inter-American Development

Bank to allow a merger of the ordinary capital and inter-regional capital accounts in order to make more efficient use of Bank capital resources.

I will discuss each of these five initiatives in greater detail below.

1. IDA VIII

As members of the Committee are aware, last year we completed negotiations for the eighth replenishment of International Development Association (IDA) resources. We were able to achieve an IDA VIII replenishment of about $12.4 billion along with significant reforms. We are seeking a total U.S. contribution for IDA over three years of $2,875 million, or $958.3 million annually. While this request is large, the U.S. share has declined from 42 percent of the initial subscription in 1961, and a 25 percent share in IDA VII, to around 23 percent in IDA VIII. In IDA VIII we managed to negotiate increased contributions by Japan, Canada, Germany, Italy, and others.

Our IDA VIII negotiations also achieved a number of objectives important to the United States:

- priority will be given to Sub-Saharan Africa, with between 45-50 percent of IDA VIII lending targeted for that region;
- IDA maturities will drop from 50 years to 40 years for the least developed IDA recipients and to 35 years for all other recipients;
- future IDA credits will include provisions for adjusting the terms of loans, including the possibility of interest charges to reflect changes in individual country circumstances;

- greater emphasis will be placed on conditionality and performance as a criteria for lending;
- at least $3 to $3.5 billion of IDA VIII will be used for adjustment lending, which will foster the ability of IDA recipients to achieve sound, sustainable growth.
- IDA VIII lending to India and China will be at least as large as under IDA VII, and may be larger given the IDA VIII increase;
- Management will increase attention to environmental concerns; and
- If currently depressed prices or expected declines in prices of agricultural commodities will reduce project returns below minimum levels, IDA will not lend for increased production.

Much of IDA's structural adjustment lending will be in the context of the new IMF/World Bank policy framework program. Under this program, a single comprehensive package will address the macro-economic and structural needs of the lowest income countries. The recipient country, the IMF and the World Bank negotiate medium-term economic plans supported by the lending arrangements of the IMF Structural Adjustment Facility, IDA VIII and bilateral aid agencies (coordinated by the World Bank). This new program should greatly increase the efficient management of developing economies and offers a real chance to facilitate growth in these countries.

Many of IDA's traditional supporters are concerned that structural adjustment lending programs may harm the poor. We believe that those most in need will benefit from policy changes to improve incentives and reduce economic distortions, which tend to discriminate against them. Failure to adjust will prevent the poor from ever having an opportunity to improve their livelihood.

The social costs, institutional and political difficulties, and financial requirements to make needed policy changes and sustain the adjustment process are indeed extensive. It represents an enormous challenge, but one that must be undertaken to establish the foundation for ongoing expansion. And the IBRD management is strongly committed to measures to ease the transition costs of adjustment.

During the IDA VIII negotiations, Japan stressed that its significant contributions to IDA had not been matched by its capital shares in the IBRD. To achieve a larger Japanese contribution, we agreed to cede a small portion of our IBRD shares -- if the World Bank's Articles of Agreement were changed to require an 85 percent voting majority for changes in the Articles as compared to the current 80 percent test. A similar change was made in the IMF Articles of Agreement at the time of the quota increase for the Fund in 1976. In addition, we pressed the Japanese to assume a more contributory international position, including:

- follow-through on agreements reached at the Tokyo Summit;
- steps to stimulate their domestic economy;
- actions to open their economy to exports from developing countries, particularly to give the Newly Industrializing Countries (NICs) more access to Japanese markets;
- achievement of an agreement on mixed credits; and
- a supplemental contribution to IDA VIII beyond their 18.7 percent share.

The United States and Japan reached a tentative understanding on these issues during the IDA VIII negotiations. Italy and Canada also asked for, and received, increases in their IBRD shares in exchange for an increase in IDA VIII contributions. As a result of these negotiations, the United States will relinquish rights to about 2 percent of our shares for purchase by Japan, Italy, and Canada -- while retaining our veto authority over Article changes. The Board of Directors and Board of Governors of the World Bank will be addressing these issues in the next few months.

In sum, IDA VIII will provide efficient, high quality lending in support of growth and development in the world's poorest countries, many of which are in Sub-Saharan Africa. IDA maximizes the use of scarce concessional resources for development. It is a sound, cost effective vehicle for assisting countries where we have strong strategic, economic, and humanitarian interests.

In my view, the timing of this replenishment is critical, given the troublesome development prospects of some of the poorest nations, particularly in Africa. It could offer a key signal to the people of Africa that the United States is committed to significant, market-oriented reforms of their economies -- so that they can reverse declining trends and have a fair chance to fight back against famine, disease, and poverty.

IDA VIII offers a valuable opportunity to support the adjustment process in developing countries. A growing number of nations are realizing the importance of market forces and incentives to to the restoration of growth. The chief strength of IDA is its ability to encourage such reforms while coordinating and catalyzing other sources of finance to promote growth, development, and stability in the developing world.

This is an excellent package, and I urge strong bipartisan Congressional support.

2. Multilateral Investment Guarantee Agency (MIGA)

The Administration also strongly supports the creation of the Multilateral Investment Guarantee Agency (MIGA). In association with the World Bank, MIGA will promote reform of developing countries' investment policies, enhance the private sector's contribution to the development process, and encourage the flow of equity capital to developing countries.

Due to its multilateral nature, MIGA will be better positioned to promote structural reforms than OPIC or other national insurance agencies. MIGA will be a small, cost effective operation requiring little funding. In return we will secure an important new instrument for promoting an improved international economy.

The United States played the preeminent leadership role in negotiating the MIGA Convention; we wanted to ensure that this institution would be effective. A broad cross-section of industrial and developing countries are prepared to make MIGA operational promptly -- but only after U.S. participation is assured. Delay by the United States could possibly derail the organization.

Thus, the Administration is seeking authorization and full funding of U.S. membership in the FY 1988 Budget. The $222.0 million U.S. subscription is 20.5 percent of the total. It includes $44.4 million of budget authority, of which $22.2 million would be cash outlays and $22.2 million would be in the form of non-negotiable, non-interest bearing promissory notes. The remainder of the Administration's request is for $177.6 million of callable capital under program limitations. I want to emphasize that this is a one year appropriation; we do not envisage additional budget requests.

MIGA has received broad endorsement from the private sector. In view of the large benefits we anticipate, particularly when compared to its relatively modest cost, I urge that the Congress enable us to move expeditiously to become a founding member of MIGA.

3. Asian Development Bank and Fund

In April 1986, the developed countries that contribute to the Asian Development Fund (ADF) agreed on a four-year, $3.6 billion replenishment for the poorest countries in the region -- primarily in South and Southeast Asia, with Pakistan, Bangladesh and Sri Lanka likely to receive more than half of the resources.

The U.S. share will be 16.23 percent, the same as in the previous replenishment and second to Japan's 36.7 percent share.

The Administration's legislative proposal includes authorization for a total U.S. contribution over four years of $584.4 million.

The Administration achieved several important reforms in the Asian Development Bank in the course of negotiating this replenishment agreement. First, the ADF will place increased emphasis on the role of the private sector in promoting long-term sustainable growth and development. Second, it will make a greater effort to seek policy reform by borrowers in the context of lending and technical assistance activities. Third, the ADF has agreed to develop country strategies to guide the lending program for each country. Fourth, the lending terms for the ADF will be made more rigorous in line with the terms agreed upon in the eighth replenishment of the International Development Association. Finally, internal organizational changes have been undertaken to improve the quality of lending.

The emphasis on borrowing country policy reforms, the development of country strategies, and the organizational changes should permit the Bank to make a material contribution to the international community's efforts to support sustained growth in the countries that borrow from the ADF and from the Bank's hard window.

4. African Development Bank and Fund

In November 1986, the member governments agreed to the Fourth General Capital Increase of the Bank's ordinary capital resources. This agreement should raise the authorized capital from $6.4 billion to $19.4 billion, with 6.25 percent of increased resources to be paid in. This capital increase should support a five-year lending program of $6.0 to $7.8 billion from 1987 to 1991 and will also substantially strengthen the Bank's financial structure.

During the negotiation of this capital increase we were able to secure several changes designed to improve the operations of the Bank. First, the Bank will put in place a more effective country programming and lending operation by developing country strategies that are updated regularly, as often as annually for major borrowers.

Second, monitoring of project implementation will be intensified during the 1987-1991 period. At the suggestion of the General Accounting Office, post-project evaluation activities will be made more independent of operational staff and will specifically identify lessons for future project design and implementation.

Third, coordination with other donors will be enhanced, especially in the course of limited policy-based lending in conjunction with the World Bank.

The Administration is seeking authority for U.S. participation in the capital increase and authority to subscribe to shares amounting to $719.6 million with $45.0 million paid-in.

5. The Inter-American Development Bank

The Administration's legislative proposals include a relatively minor provision that would enable me to support a proposal to merge the Ordinary and Inter-regional Capital accounts of the Inter-American Development Bank (IDB). We recommend your support of this measure to permit a more effective use of the IDB's existing resources.

Of broader interest, the ongoing negotiations regarding the Seventh General Increase of the resources of the IDB are continuing. Regretfully, I must inform you that we are disappointed with the progress of those discussions.

In our view, the Bank should play a strong, prominent role in assisting the countries of this Hemisphere to address their development needs, especially the priority task of sustaining growth in debt-burdened countries. However, to play that role, we believe there must be a number of fundamental reforms in the Bank.

If these reforms are adopted the Administration is prepared to support a $20 billion lending program for 1987 through 1990.

The reforms which we believe need to be implemented are:

- a strengthened country programming structure within the Bank so that operations can concentrate on those sectors and projects that would have the greatest impact on sustained economic growth and social progress;
- a concentration of concessional resources from the Fund for Special Operations (FSO) on the poorest countries, i.e., Bolivia, El Salvador, Guyana, Haiti and Honduras;

- operational definitions and procedures to guide the formulation of country programming strategies;
- development of a policy-based sector lending program with strong conditionality;
- reorganization of the Bank's internal structure to facilitate preparation of country programming strategies and sector lending activities; and
- a restructuring of voting procedures so that representatives of member countries which provide the vast bulk of the Bank's usable resources can exercise more authority over loan quality. The United States, Canada and the Bank's non-regional members in Europe and Asia provide over 95 percent of these usable resources, but have only less than half of the total voting power. Decisions are made, however, on the basis of majority vote and donor country views are consistently defeated.

We have been seeking a change in the voting structure which would require 65 percent of the voting power for decisions. Only with a mechanism which allows a substantial minority to influence decisions can we ensure that a greatly expanded IDB lending program will encompass appropriate policy conditionality and high priority, quality loans.

Last week, the United States participated in the seventh formal meeting since last March to discuss the changes that are needed in the Bank to allow it to play such a role. There have also been numerous informal meetings. While we have achieved some progress, a final resolution to the negotiations is eluding our efforts.

We plan to continue to try to conclude the negotiations satisfactorily. However, if satisfactory agreement is not reached on all outstanding issues, we are prepared to negotiate a more modest replenishment which would allow the Bank to continue traditional project lending.

Negotiations for the replenishment will resume in March at the time of the IDB Annual Meeting in Miami. I am hopeful some conclusion can be reached at that time. The most disappointing outcome would be a failure to reach agreement. We hope that this outcome can be avoided by a concerted effort to resolve outstanding issues.

Conclusion

I recognize that the MDBs do not have a strong national constituency to press for financing through the often difficult give-and-take that characterizes our appropriations process. And I know there is a strain of the American political culture that distrusts international multilateral institutions. These factors do not make it easy for some legislators to support the MDBs.

There are, however, other resilient American traditions that counterpoise this negative force. First, we always have been proud of the American experiment and purposeful about the model it offers other nations. Today the MDBs are helping us to promote market-oriented solutions to major problems around the world. This is our model; we should not let it fail for lack of our commitment.

Second, Americans are a pragmatic people. We rely on tools that work. The MDBs are efficient and benefit the U.S. -- our contributions go a long way. The MDBs also operate effectively in a complex world, in part because their multilateral nature enables them to take actions that would be resisted if pursued by the U.S. unilaterally. And where

MDB-operations need reform -- as some definitely do -- we are making substantial headway.

Third, the United States meets its obligations. (And because we do, we can better persuade others to meet theirs.) Our national self-respect and our international leadership depend on our willingness to fulfill this responsibility. In today's international environment, our leadership is as important as ever before.

I appreciate that the Congress faces difficult choices in the legislative process. As you proceed, I urge you to recall how important the MDBs are to America's long-run success and our own economic interests. I will assist you to the best of my abilities.

PLAN OF ACTION FOR THE IMPLEMENTATION OF SECTION 539 OF THE FOREIGN ASSISTANCE AND RELATED PROGRAMS ACT, 1987: THE MULTILATERAL DEVELOPMENT BANKS AND THE ENVIRONMENT

The paper identifies twenty-nine specific provisions requiring action under Section 539. Each item in this paper quotes the relevant legislative provision, then indicates the status of the subject and the required action.

Items 1 through 19, 22 and 24 require actions by one or more of the Executive Directors representing the United States at the banks. In some cases (items 15 through 18) the Treasury or State Departments, in conjunction with the Agency for International Development, must perform some preparatory work before Executive Directors can take action.

Items 20 and 23 require actions by the Treasury Department in consultation with the State Department and the Agency for International Development.

Items 26 through 29 require actions by the Agency for International Development in consultation with the State Department and the Treasury Department. Item 29 does not pertain to the multilateral development banks.

Item 21 requires actions in which the State Department has lead responsibilities and other actions in which the Treasury Department has lead responsibility.

Regardless of the unit that has action responsibility, carrying out these provisions will require close consultations between U.S. agencies and the U.S. Executive Directors.

1. Provision - Staffing and Staff Training

(a) The Secretary of the Treasury shall instruct the United States Executive Directors of the Multilateral Development Banks to -

(1) vigorously promote a commitment of these institutions to -

(A) add professionally trained staff with training and experience in ecology and related areas to undertake environmental review of projects, and strengthen existing staff exercising environmental responsibilities;

Status and Action

-- The World Bank has a staff environmental reorganization plan under consideration, which reportedly includes the addition of staff.

-- The environmental reorganization will be carried out in conjunction with a broad reorganization of the Bank in the coming months.

-- The IDB has selected a senior environmental specialist to review all projects in preparation or implementation over a one year period. The specialist joined the staff in early January.

-- The U.S. Executive Director in the IDB has suggested hiring two environmental analysts and an anthropologist but is not pressing the issue, pending a preliminary evaluation of the work of the senior environmental specialist.

-- The ADB is hiring a technical assistant for 1987 to handle the more routine aspects of the environmental unit's work.

-- With the strong support of the U.S. Executive Director, Bank Management has scheduled consideration of a third environmental professional specialist for late 1987, during the preparation of the 1988 budget.

-- The Agency for International Development is exploring the possibility of funding an additional expatriate position.

-- The AFDB environmental specialist has extended for an additional year to December 1987. The U.S. Executive Director has urged the Bank to expand professionally trained staff, possibly by adding a regional specialist.

-- All the MDBs, except the IDB, have had environmental training activities for staff.

-- Action: During 1987, the respective U.S. Executive Directors shall:

* evaluate the World Bank environmental reorganization for effective changes in the Bank's capacity to identify and act upon environmental and tribal peoples aspects of projects and to encourage policies which improve management of natural resources in borrowing countries; following the evaluation, recommend to Bank Management any additional organizational or staffing changes which appear to him necessary;

* evaluate the capacity to the IDB senior specialist to influence project design and implementation and urge to Bank Management to take any additional steps necessary to strengthen the institution, possibly including the addition of an anthropologist and two environmental specialists; encourage staff training;

* support additional ADB professional staff environmental specialist in 1988 budget discussions;

- support additional AFDB staff environmental specialist, in addition to possible AID-funded advisor.

2. Provision - Management Plans - Line Unit

(B) develop and implement management plans to ensure systematic and thorough environmental review of all projects and activities affecting the ecology and natural resources of borrowing countries, including -

(i) creation of a line unit to carry out such reviews as part of the normal project cycle,

Status and Action

-- All the MDBs, except the IDB, have environmental units charged with reviewing activities.

-- The IDB has an interdepartmental committee which reviews activities. While not a unit, the committee has primary responsibility for carrying out reviews.

-- Action: None required except in the IDB, where the U.S. Executive Director shall evaluate the activities of the senior environmental specialist during 1987 to determine whether further institutional strengthening, including creation of a line unit, is needed.

3. Provision - Management Plan - Advisor to the President

(ii) appointment of an environmental advisor to the Presidents of the Multilateral Development Banks,

Status and Action

-- In the World Bank, the head of the environmental unit is designated as advisor to the Bank. In addition, a member of the President's personal staff monitors environmental matters brought to her attention.

-- The other banks have no comparable official.

-- An advisor to the President should be thoroughly familiar with bank missions and procedures and should be readily accessible to bank staff and informed outside groups.

-- Normally, an experienced existing staff member or an exceptionally well informed outside person could fill such a position, but a trusted relationship with the bank President would appear to be essential.

-- Action: U.S. Executive Directors in the three regional development banks shall suggest the appointment of an environmental advisor to each bank President.

4. Provision - Management Plan - Project Monitoring

(iii) institution of a regular program of monitoring all ongoing projects to ensure that contract conditions and general bank policies to protect the environment and indigenous peoples are fully complied with;

Status and Action

-- In the MDBs, there is a distinction between project "supervision" and project "monitoring." Project supervision takes place in all projects. Project monitoring takes place when specific situations require the collection and analysis of information beyond the customary requirements.

-- This provision of the U.S. legislation is being interpreted to mean that all projects with an evident need should include monitoring provisions for environmental and indigenous peoples elements.

-- The use of independent evaluations, in addition to monitoring, is a technique that should be encouraged whenever especially complex issues are anticipated.

-- Action: U.S. Executive Directors in all the banks shall urge appropriate monitoring provisions, including possible independent evaluations, wherever there are specific or special concerns about environmental or indigenous peoples aspects of projects.

5. Provision - Career Incentives

(C) create career and other institutional incentives for all professionally trained bank staff to incorporate environmental and natural resources concerns into project planning and country programming activities;

Status and Action

-- Specific proposals may vary among the banks. Possibilities include:

- long-term training: identification of graduate schools that offer one year master programs in ecology or natural resource management to which MDB staff could be sent; this could be a significant budgetary expenditure;
- bonuses: a dedicated bonus category for proficiency in designing and implementing environmental activities,
- awards: recognition plus stipend for an annual "best performance,"
- promotion/assignment: a mandate to those who decide promotions or assignments to consider demonstrated capacity to manage environmental issues in making decisions.

-- Overall, U.S. policy related to budgetary and staffing limitations should be adhered to.

-- Action: U.S. Executive Directors shall review possibilities within budgetary and staffing resources, and urge bank management to adopt, and other Directors to support, one or more career incentive programs.

6. Environment and Health Ministers

(2) vigorously promote changes in these institutions in their preparation of projects and country programs that will prompt staff and encourage borrower countries to -

(A) actively and regularly involve environmental and health ministers, or comparable representatives, at the national, regional and local level, in the preparation of environmentally sensitive projects and in bank-supported country program planning and strategy sessions;

Status and Action

-- All the banks have responded that, in appropriate situations, environment and health ministers are consulted but that some borrowers do not have specific environmental agencies.

-- In a noteworthy initiative, the IDB tentatively plans a conference in May 1987 of implementing agencies and environmental agencies in borrowing countries to stimulate cooperation in project activity.

-- Action: In meeting with bank staffs on projects, U.S. Executive Directors shall regularly ask whether environment and health ministers have been consulted. If a persistent pattern of avoidance is evident in a given bank, then the Director shall urge the issuance of a firm administrative directive to require such consultations.

7. Provision - Non-Governmental Organizations

(B) actively and regularly seek the participation of non-governmental indigenous peoples and conservation organizations in the host countries at all stages of project planning and strategy sessions;

Status and Action

-- In the World Bank, the U.S. Executive Director has put forward several suggestions: (1) specific notation of consultations with organizations in the environmental section of appraisal reports, (2) as a step to improve staff familiarity, a questionnaire to country program staff to identify organizations in their countries and to specify organizational capacities to contribute to project planning or implementation, and (3) circulation of an Operations Policy Note reminding staff of the benefits of consulting such organizations.

-- Continued discussion of this item is being held in abeyance until the Bank completes its organizational changes.

-- In the ADB, the U.S. Executive Director put forward the same suggestions as in the World Bank, with a response that there very few organizations in the region which could participate usefully in project work.

-- The U.S. Executive Director subsequently provided a list of regional non-governmental organizations obtained from the World Wildlife Fund.

-- In the IDB, the U.S. Executive Director put forward similar suggestions as in the World Bank.

-- In the AFDB, the U.S. Executive will support a staff proposal for greater contact with these organizations when the Board reviews the Bank's environmental procedures and practices in late January, 1987.

-- Action: While reiterating our specific suggestions, U.S. Executive Directors shall devise and urge specific additional steps in each bank to encourage contacts with nongovernmental organizations. After urging appropriate steps, they should seek Washington assistance to gather in capitals to the extent needed.

8. Provision - Local Communities

(C) fully inform local communities and appropriate non-governmental organizations with interest in local development projects of all project planning sufficiently in advance of project appraisal to allow informed participation of local communities and non-governmental organizations that may be adversely affected by them;

Status and Action

-- Action: U.S. Executive Directors shall implement this provision in parallel with the provision related to non-governmental organizations (see item 7).

9. Provision - Multidisciplinary Planning Process

(3) establish a regular integrated multidisciplinary planning process to conduct land use capability analyses in reviewing potential loans; such plans shall include, but not be limited to, a review of ongoing or other potential resource utilization efforts in and adjacent to the project area;

Status and Action

-- As a rule, this provision describes the approach that the banks generally take in developing projects which involve significant use of land as a resource.

-- The intent of the provision appears to be to encourage wider use of land use planning analysis and mechanisms.

-- There are instances when a multidisciplinary team may not include all the disciplines that have been desirable.

-- In most instances, multidisciplinary teams consist of at least the following specialties: biologist, ecologist, soil scientist, forester, economist, civil engineer (transportation and structural), hydrologist, sociologist (or anthropologist), regional planner (or geographer), and horticulturalist.

-- Action: U.S. Executive Directors shall urge staff and management to employ land use planning analytical techniques when discussing agriculture or hydroelectric generating projects or other projects where land use is a significant input into project planning. If it appears that multidisciplinary land use planning is not being regularly employed, Directors shall approach management on this subject and advise Washington agencies whether an approach to member country capitals for support would be useful.

10. Provision - Ecological Resource Rehabilitation and Management

(4) vigorously promote a commitment of these institutions to develop and implement plans for the rehabilitation and management of the ecological resources of borrower nations on a sustained basis. Special attention shall be paid to soil conservation, wildlife, wetlands, estuaries, croplands, grasslands, forests, and fisheries, including -

(A) long-term programs of research designed to manage ecosystems properly;

Status and Action

-- The World Bank wildlands management policy, announced in June 1986, is the single most important initiative that may help meet the intent of this provision. The policy states that:

- the Bank will normally decline to finance projects that convert lands of special concern, including national parks, biosphere reserves, or other areas that maintain exceptional biological diversity or that provide key environmental services;
- if a project involves wildlands other than those of special concern, the Bank will cite the project, where possible, on already converted lands;
- if conversion of existing wildlands are necessary, the Bank will site projects on less valuable wildlands; and
- whenever significant amounts of wildlands (e.g., more than 100 square kilometers) will be converted, the Bank will compensate for this loss by conserving an equivalent amount of ecologically similar areas elsewhere.

-- The regional banks should adopt similar policies.

-- Effective implementation of a wildlands management policy will not follow automatically with adoption. Encouragement to country and project staff is essential.

-- All the banks support long-term research by outside organizations to a modest degree. There is no apparent effort to assure that the research systematically covers environmental dimensions.

-- Action: U.S. Executive Directors shall urge that the regional banks develop and/or implement wildlands management policies. In appropriate situations, Directors in the MDBs shall urge project and country staff to incorporate wildlands management components or projects which protect and conserve unique habitats. In addition, Directors shall urge that bank environmental staff specialists initiate bank research in these fields, take part in the preparation of the bank's research program and review specific research proposals to assure that environmental elements are specifically covered in sponsored research. Finally, U.S. Directors shall ask management to identify research activities that are being supported during the current year and that have a bearing on ecological management.

11. Provision - Local Staff Resources for Project Implementation

(B) provision of adequate extension workers, park rangers, social forestry experts, and other appropriate personnel; ...

Status and Action

-- Adequate local staff (and budget) resources in developing countries is a general problem in periods of budgetary stringency.

-- Longer term growth prospects would be served by ensuring that natural resource management units, especially if connected to project activity, were more sheltered from budgetary pressures than units which contribute less to long-term productivity growth.

-- World Bank structural and sectoral adjustment (SAL) loans, and the policy dialogues precedent to such operations, are designed, in part, to address the policy framework needed to sustain growth. Systematic assessment of natural resource management requirements could be incorporated as part of SAL operations, and could be associated with commitments to provided needed staff and budget resources in some cases.

-- The Bank's wildlands management policy also calls for providing adequate staff resources.

-- Action: U.S. Executive Directors shall urge that bank policy dialogues seek to preserve or enhance operational effectiveness of units responsible for natural resource management or preservation. In the World Bank, the U.S. Executive Director shall urge that SAL operations identify natural resource management objectives and include policy measures to achieve such objectives in appropriate cases.

12. Provision - Training for Environmental Science and Land Use Planning

(C) improved programs of training in environmental science and land-use planning;

Status and Action

-- MDB lending for education emphasizes primary, secondary or vocational programs.

-- As an initial step to implement this provision, it may be useful to survey education projects.

-- If practical, MDB education projects should include appropriate elements in curricula to ensure training in environmental science and land use planning.

-- In addition, projects with significant effects on the environment or on indigenous peoples should include training whenever appropriate.

-- The World Bank Economic Development Institute is addressed in item 17, below.

-- Action: U.S. Executive Directors shall interview education project staff to determine whether environmental science and land-use planning are incorporated in academic curricula, or how such subjects might be incorporated. Directors shall urge appropriate project activity.

13. Provision - Environmentally Beneficial Projects

(5) vigorously promote a commitment of these institutions to increase the proportion of their programs supporting environmentally beneficial projects and project components, such as technical assistance for environmental ministries and institutions, resource rehabilitation projects and project components, protection of indigenous peoples, and appropriate light capital technology projects. Other examples of such projects include small scale mixed farming and multiple cropping, agroforestry, programs to promote kitchen gardens, watershed management and rehabilitation, high yield wood lots, integrated pest management systems, dune stabilization programs, programs to improve energy efficiency, energy efficient technologies such as small scale hydro projects, rural solar energy systems, and rural and mobile telecommunications systems, and improved efficiency and management of irrigation systems.

Status and Action

-- The first year after this suggestion was put forward in the December 1984 House Banking Committee report, State/OES agreed to develop an approach to encourage environmentally beneficial projects. Initial efforts centered on identifying potentially beneficial irrigation projects or components.

-- During 1986, the effort has broadened to encompass tropical forest projects and energy conservation.

-- Some specific developments:

- * Using the World Resources Institute's Tropical Forest: Call to Action State and Treasury developed a plan for approaching the MDBs to discuss investment ideas and plans in tropical forests. Initially, discussions were to be with the World Bank.

- * In March, 1986, the Secretary of the Treasury and the President of the IBRD exchanged letters to set the framework for subsequent discussions with the Vice President for Operations Policy and with the six regional Vice Presidents.

- * The U.S. Executive Directors in the World Bank and, subsequently, in the African Development Bank met with staff in September to discuss forestry investment in Nigeria.

- * In November, the U.S. Executive Director in the World Bank met with staff to review the potential for addressing energy efficiency and conservation and forestry management in the Ivory Coast. The U.S. Executive Director in the African Development Bank has been instructed to have parallel discussions with AFDB staff.

- * Further meetings on forestry investment and energy conservation have been requested with World Bank staff responsible for programs in Malawi, Thailand, Brazil, Ecuador and Indonesia.

-- Action: The U.S. Executive Director at the World Bank shall complete meetings on five pending countries as soon as possible. He shall identify and carry out further meetings during 1987 to discuss forestry and energy conservation issues. The Treasury Department shall then instruct the respective regional bank Executive Directors to discuss these subjects with the respective staffs. The Treasury Department, in consultation with the State Department and the Agency for International Development, shall consider one or two additional substantive areas for further discussions on beneficial projects with the banks.

14. Provision - Energy Efficiency Lending

(6) place an increased emphasis on upgrading the efficient use of energy and other resources by borrowing nations. Such efforts shall include, but not be limited to -

(A) significantly increasing the proportion of energy project lending for energy efficiency improvements, and decentralized small scale facilities such as solar, wind or biomass generating facilities; and

Status and Action

-- Our approaches related to energy conservation (see item 13) should encompass these items.

-- Action: In canvassing for energy conservation projects, U.S. Executive Directors shall probe for the possibilities for efficiency improvements and for small scale energy generation.

15. Provision - Compare Energy Generation/Energy Conservation

(B) conducting an analysis of the comparative costs of any new energy generating facilities with the cost of increasing the energy efficiency in the project service area;

Status and Action

-- The concept of increasing energy efficiency in the project service area -- apart from avoidance of subsidized use through price distortions -- requires some further definition.

-- One frequently mentioned possibility is lending by the electrical utility to users to finance efficiency improvements or providing energy conservation services. These activities may modify the character of the utility from purely a seller of energy to a more diversified enterprise.

-- The State Department will coordinate the development of an issue paper to probe the comparative costs of generating and conserving energy.

-- Action: The U.S. Executive Director at the World Bank shall discuss the concept of a diversified public utility with the central Office of Energy, to explore the possibility of expanding operations to include financial and other services. After the analytic questions are developed by the State Department, U.S. Executive Directors shall investigate energy generating investment plans to determine the scope for energy efficiency investments.

16. Provision - Wetlands

(7) seek a commitment of these institutions to fund projects to protect and preserve crucial wetland systems and to avoid expenditures for projects designed to convert major wetland systems. Development proposals which may affect these areas should be the subject to detailed impact assessments so as to avoid detrimental impacts to fisheries, wildlife and other important resources;

Status and Action

-- The Treasury Department has invited suggestions from U.S. environmental groups for guidelines to review projects which may affect wetlands.

-- The guidelines would consist of a brief paper which may be discussed with bank staffs and a longer background paper which can serve as a primer for the staff on wetlands.

-- Action: The Treasury Department, in conjunction with the State Department and the Agency for International Development, shall work with environmental groups in the coming weeks to develop the papers. The U.S. Executive Directors will then be instructed to raise the subject with bank management, using the papers as a basis for discussion.

17. Provision - Economic Development Institute

(8) vigorously promote the establishment within the Economic

Development Institute of the World Bank of a component which provides training in environmental and natural resource planning and program development;

Status and Action

-- The State Department has submitted a report on EDI suggesting increased emphasis on natural resource management matters and proposing a consultant review of EDI course content.

-- Action: Treasury will forward the paper to the U.S. Executive Director for forwarding to Management. After obtaining Management views, the Director shall take the necessary steps to achieve the objective of this provision.

18. Provision - Board Discussions

(9) regularly raise, at meetings of the Board of Directors of these institutions, the issue of their progress in improving their environmental performance, with specific focus on the measures set forth above; ...

Status and Action

-- The previous year's legislation called for special meetings of the Board. To recapitulate:

- In the World Bank, the April 30 Board meeting on the FY87 budget focused largely on the environmental aspects of Bank activities, and included suggestions for a review of the Bank's organizational structure to deal with environmental issues. The review is now being carried out. The Board meeting was preceded by separate informal meetings with developed and developing country representatives on April 21.

- On December 10, a Board seminar discussed environmental aspects of the Bank program and supported Management steps to review Bank structure and the economics of natural resource management.

- In the IDB, the U.S. Executive Director sought support for environmental reforms in informal meetings with senior management officials (June 12), developed country representatives (September 22) and developing country representatives (October 6).

- The U.S. Executive Director also sought a series of seminars on sensitive lending sectors. On November 21, a Board seminar on environmental aspects of hydroelectric dams thoroughly reviewed these aspects.

- Further seminars on the environmental aspects of lending for agriculture and transportation have been requested.

- In the ADB, the Board reviewed environmental policies and procedures on January 23, agreeing to an adjustment in procedures which will shift more of the routine work to project staff and will allow environmental professionals to concentrate on more complex issues.
- In the AFDB, the Board will meet February, 1987 to approve priorities for Bank staff environmental work and suggesting additional staff for the central environmental unit.

-- This year's legislation omits the requirement for special meetings, but requires regular Board discussion of progress toward improved performance.

-- Action: The member agencies of the Working Group for Multilateral Assistance will advise Directors in writing of opportunities to discuss environmental issues in project or policy contexts. U.S. Directors may include an account of Board discussions during the year in their required report (item 23).

19. Provision - Document Distribution Four Weeks Before Board

(10) require at least a four week project review period between the time when staff recommendations are presented to the board and board action is taken on any projects.

Status and Action

-- The United States has sought to increase the elapsed time between document issuance and Board action in past years and has encountered resistance. The argument has been that further delays risk cost changes and delays in loan signature and effectiveness and in project implementation.

-- The two weeks currently provided to U.S. agencies is not adequate for their internal needs.

-- The four week review period is being sought by the Congress for two reasons: to allow the Congress/U.S. NGOs to become involved in selected loan proposals if they choose and to encourage member governments to review projects in capitals prior to board action.

-- An additional benefit to member governments from earlier document distribution would be the improved opportunity to coordinate with other governments on the full range of MDB issues.

-- Action: U.S. Executive Directors shall urge colleagues and management to increase the two week period to four weeks. If necessary after these initial discussions, the Departments of State and Treasury shall consult with key governments though diplomatic channels.

20. Provision - U.S.G. Evaluation of Proposed Loans

(b) The Secretaries of Treasury and State, and the Administrator of the Agency for International Development, shall ensure and coordinate a thorough evaluation within the U.S. Government of the potential environmental problems, and the adequacy of measures to address these problems, associated with all proposed loans for projects involving large impoundments of rivers in tropical countries; penetration roads into relatively undeveloped areas; and agricultural and rural development programs. The potential environmental problems to be addressed in such evaluations shall include those relating to deterioration of water quality; siltation; spread of waterborne diseases; forced resettlement; deforestation; threats to the land, health and culture of indigenous peoples; topsoil management, water logging and salinization in irrigation projects; and pesticide misuse and resistance.

Status and Action

-- A restatement of a similar provision in the 1986 legislation, this subsection describes the types of projects likely to be environmentally sensitive and mandates thorough evaluation by U.S. agencies through the established interagency process.

-- Prior to enactment of the legislation in 1985, steps to strengthen inter-agency review included:

- addition of State/OES to the inter-agency review process,

- a new staff position in State/OES to concentrate on MDB/environment issues,

- addition of questions regarding environmental aspects of projects to early warning cables,

- hiring one Treasury staff person with environmental responsibilities specifically addressed in the position description, and

- assignment of Treasury economist to serve as liaison to nongovernmental organizations which may have project specific information.

-- AID is taking steps to strengthen its Washington-based review of projects by:

- hiring an additional staff member at the GS-14 level to review projects, selecting some for in-depth review at an early stage, and

- providing funds to employ consultants to review selected projects.

-- Action: The Departments of State and Treasury and the Agency for International Development shall continue to seek ways to strengthen the interagency review of projects in sensitive lending sectors. AID is to complete the hiring for its new staff position.

21. Provision - Diplomatic Initiatives

(c) The Secretary of the Treasury and the Secretary of State shall regularly undertake and continue diplomatic and other inITiatives in addition to those mentioned in subsection (a)(5) (sic), to discuss measures to improve the environmental performance of the Multilateral Development Banks with the representatives to these institutions and with ministries from which they receive their instruction, of borrower and donor nations. In particular, joint efforts shall be undertaken with borrowers and donors to ensure cooperative implementation of the reforms described above.

Status and Action

-- To recapitulate significant efforts of recent months:

- In April, selected U.S. embassies were asked to approach appropriate government officials to seek support of their governments for reform measures during the April 30 World Bank Board meeting on the FY87 budget.

- During the IMF/IBRD Annual Meetings, the State Department held bilateral meetings on environmental issues with members of the delegations from six countries: Brazil, China, Japan, Canada, France and Germany.

- The U.S. Delegation to the OECD Environment Committee proposed a project to prepare voluntary guidelines that OECD members could use in reviewing the environmental aspects of MDB projects.

-- Two initiatives are currently underway and will play out in the coming months:

  * The IMF/IBRD Development Committee will discuss "Environment and Development" in April.

  * The OECD Environment and Development Assistance Committees will sponsor a seminar in late 1987 on environmental assessment and development, to which selected developing countries and MDB representatives will be invited.

-- One developed country representative to the IMF/IBRD Annual Meetings suggested a G-7 working group to review environmental aspects of the banks, twice annually to coincide with Development Committee meetings. This suggestion is under consideration.

-- Action: (a) Treasury, in consultation with State and AID, shall prepare a cable in January to Development Committee members identifying what we hope to achieve in April meeting.

(b) Treasury shall consider suggestions to cooperate with U.S. NGOs in preparation for the Development Committee meeting.

(c) Treasury shall decide on G-7 suggestion.

(d) State shall prepare cable to selected embassies to inform their host governments of how we plan to implement legislation and seek appropriate support.

(e) State shall follow up on the OECD Environment Committee initiative.

(f) State shall consider a possible high level initiative to the Government of India and other key governments on selected issues.

22. Provision - Special Meeting of the Board of Governors

(d) The Secretary of the Treasury and the Secretary of State shall propose formally that the Boards of Governors of each Multilateral Development Bank hold a special meeting within the next twelve months, focused specifically on environmental performance and better implementation of multilateral development policies designed to protect the environment and indigenous peoples.

Status and Action

-- A special Governor's meeting would be so exceptional as to signal systemic crisis. The agenda probably could not be held to environment alone.

-- One possible variation might be holding a seminar on Environment and Development for Governors at the time of the regularly scheduled annual meetings.

-- Action: U.S. Executive Directors shall propose a special meeting to management and other Directors following the April Development Committee meeting and shall report their responses.

23. Provision - Annual Report

(e) The Secretary of the Treasury shall prepare and submit to the Committees on Appropriations by January 15, 1987, and annually thereafter, a report documenting the progress the Multilateral Development Banks have made in implementing the environmental reform measures described in paragraphs one through eight of subsection (a). (N.B.: Items one through seventeen in this plan.)

Status and Action

-- The initial report shall combine information on implementation of the 1986 legislation and the implementation plan for the 1987 legislation. It will not be possible to report on implementation of the 1987 legislation.

-- Action: Treasury shall prepare a draft 1988 report to be circulated for inter-agency clearance by November 30, 1987. U.S. Executive Directors shall report on the status of their efforts in their respective institutions by November 15, 1987.

24. Provision - Staffing in World Bank Regional Offices

(f) In the report of the Secretary of the Treasury required by subsection (e), regarding the implementation of staffing measures suggested in subsection (a)(1)(A), the Secretary of the Treasury shall specifically discuss the progress of the International Bank for Reconstruction and Development in upgrading and adding environmentally trained professionals to each of its six regional offices to review projects for their prospective ecological impacts.

Status and Action

-- The environmental reorganization plan under consideration in the World Bank (item 1) reportedly includes consideration of this proposal.

-- Action: Treasury shall include specific reference to this proposal in its 1988 report.

25. Provision - The AID Early Warning System: Mission Reports

(g) The Administrator of the Agency for International Development in conjunction with the Secretaries of Treasury and State shall -

(1) instruct overseas missions of the Agency for International Development and embassies of the United States to analyze the impacts of Multilateral Development Bank projects proposed to be undertaken in the host country well in advance of a project's approval by the relevant institution. Such reviews shall address the economic viability of the project; adverse impacts on the environment, natural resources, and indigenous peoples; and recommendations as to measures, including alternatives, that could eliminate or mitigate adverse impacts. If not classified under the national security system of classification, such information shall be made available to the public;

Status and Action

-- The provision essentially codifies existing practice. AID missions are asked to identify significant problems in proposed MDB projects.

-- Action: AID staff has met and shall continue to meet with interested environmental organizations on a regular basis and to brief them on mission reports relating to projects under preparation.

26. Provision - AID Early Warning System: List of Projects

(2) in preparation of reviews required by subsection (g)(1), compile a list of categories of projects likely to have adverse impacts on the environment, natural resources, or indigenous peoples. The list shall be developed in consultation with interested members of the public and made available to the Committee on Appropriations by December 31, 1986 and semi-annually thereafter; and

Status and Action

-- AID staff has prepared the first list, in consultation with Treasury, State and U.S. environmental NGOs.

-- Action: AID Administrator will continue to report every six months as required with clearances from Treasury and State.

27. Provision - AID Early Warning System: Sharing with other Donors

(3) study the feasibility of creating a cooperative "early warning system" for projects of concern with other interested donors.

Status and Action

-- Various options to implement this provision are under consideration.

-- AID is also exploring the receptivity of other donors to enhancing their system, perhaps in collaboration with the United States, in coordination with Treasury and State.

-- After information on other donor systems is obtained, options for a cooperative system will be examined in coordination with Treasury and State.

-- Action: AID shall discuss these issues with other governments as opportunities arise.

28. Provision - AID Early Warning System: Instructions to Directors

(h) If a review required by subsection (g)(1) identifies adverse impacts to the environment, natural resources, or indigenous peoples, the Secretary of the Treasury shall instruct the United States Executive Director of the appropriate Multilateral Development Bank to seek changes to the project necessary to eliminate or mitigate those impacts.

Status and Action

-- This provision is drawn fairly tightly and, in effect, allows field AID missions to instruct U.S. Executive Directors -- a point to which Treasury objected.

-- Presumably Washington agencies may still have an independent opinion as to what constitutes an adverse impact.

-- Action: No general action is required. Procedures will be established in connection with the first case.

29. Provision - AID Advisory Committee

(i) The Administrator of the Agency for International Development shall appoint a Committee on Health and the Environment to examine opportunities for assisting countries in the proper use of agricultural and industrial chemicals and processes and alternatives such as integrated pest management. The committee shall be broadly representative of industry, agriculture, labor, health and environmental interests and shall report its preliminary finding to the Congress before hearings on the fiscal year 1988 budget.

Status and Action: This provision does not apply to the multilateral development banks.

PREPARED STATEMENT OF THOMAS B. STOEL, JR.

I. Introduction and Overview

Mr. Chairman, I appreciate very much the opportunity to testify before this Committee concerning the matters within its jurisdiction which affect the international environment. I am Thomas B. Stoel, Jr., Director of the International Program at the Natural Resources Defense Council (NRDC). NRDC is one of the Nation's leading environmental organizations, with more than 75,000 members in every state and many foreign countries. Today I am also testifying on behalf of four other major environmental organizations: the National Wildlife Federation, which has more than 4,500,000 members and supporters in its national organization and affiliates; the National Audubon Society, which has more than 500,000 members; the Sierra Club, with more than 400,000 members; and the Environmental Policy Institute. Together, these organizations have more than 5,000,000 members and supporters.

You, Mr. Chairman, have a long and distinguished record of concern about international environmental issues. This Committee as a whole has dealt with those issues from time to time -- most recently at the end of the last Congress when you sent to the Senate floor amendments to the Foreign Assistance Act to protect tropical forests and endangered wildlife species. However, the Committee has rarely if ever dealt at one time with a range of issues as broad as those it is presented with today.

The reason is quite simple. The world is confronted with a large number of important international environmental issues. That is not surprising -- we have known about most of these issues since the time of the Stockholm Conference on the Human Environment in 1972. What is new is that these environmental problems now are widely seen to affect the interests and future welfare of the United States. The American public -- the members of the groups I represent today -- is demanding that our Government respond.

Because of the breadth of the Committee's jurisdiction, I will discuss today a number of different issues and the solutions we recommend. These include:

- The problem of resource degradation in Africa -- a major cause of the recent, tragic famine, where we support a major amendment to the Foreign Assistance Act.
- The need for increased attention to environmental problems, and avoidance of environmental harm, in another important part of the world: Central America.
- The problem of global loss of wildlife species, where we recommend that you direct U.S. AID to step up its efforts.
- The need for environmentally sound, sustainable development as a principal goal of U.S. bilateral foreign assistance -- not just an add-on or an afterthought -- in the key areas of energy, agriculture, water, and institution-building.
- The important role of the UN Environment Program, the only worldwide environmental agency, and the necessity of increased U.S. support for UNEP.
- The need for continued U.S. leadership in the field of population assistance, and the funding to make that leadership a reality.
- The role of the multilateral development banks in causing environmental harm and their potential for doing good; we recommend new authorizing legislation.

II. International Environmental Problems: Impacts and Solutions

It is unnecessary to review the problems in detail, but a brief overview will put the rest of my testimony in perspective. A fundamental problem is the continuing rise in the world's population, which is predicted to grow more than a third by the year 2000, to more than 6 billion. Experts project that Mexico eventually will grow from its present population of 82 million to 195 million; El Salvador from 5 to 16 million; Kenya from 21 to 116 million; and The Philippines from 58 to 125 million.

This population growth will put ever-greater pressure on the earth's natural resources, especially its biological systems --

forests, grazing lands, croplands, and fisheries. The world's tropical forests are rapidly being destroyed. Since they are the home of perhaps half of all the world's plants and animals, we face the prospect that up to 20% of all the world's living species will be rendered extinct in the next few decades. Desertification and other forms of soil erosion threaten the productivity of vast areas of grazing lands and croplands.

To these problems of resource degradation must be added environmental threats from acid rain, pesticides, and other toxic chemicals. And beyond these local and regional dangers are the impacts of man's activities on the global atmospheric system: we are depleting the stratospheric ozone layer which protects the earth from harmful ultraviolet radiation, and man-made contaminants are warming the entire atmosphere due to the so-called "greenhouse effect" with potentially enormous impacts on ocean levels, rainfall, and crop production.

To solve these problems, we must, during the next few decades, lower drastically the rate of population increase; improve agricultural production without further destroying the earth's biological systems; safeguard the earth's treasure chest of wildlife species; find a suitable replacement for the petroleum which fuels much of the world's economy; and control contamination of the atmosphere. If we fail, the earth will be much less habitable for all of us. It is no exaggeration to say that we live at a turning point in history, for success or failure in meeting these challenges will decide to a considerable extent the long-run future of humanity.

III. There Are Solutions

If these existence of these serious and growing problems is the bad news, there is some good news. It is that, for the most part, we know how to solve these problems. There are some issues which require further study, but we hear in field after field that if the best techniques being applied anywhere could be applied everywhere in the world, there would be no problem.

With respect to many threats -- among them overly rapid population growth, deforestation, extinction of wildlife species, and desertification -- there exist well-thought-out, agreed-upon international action plans for achieving solutions. In most of the areas where no comprehensive plan exists, there is general agreement as to the directions in which we should move.

I don't mean to imply that these problems are well on the way to being solved. We all know they are not. But the main reason why they are growing more serious is not a lack of knowledge about the actions we should take. It is that the world community won't commit the necessary resources and make the necessary policy changes.

Much of the responsibility lies with us. The United States is the richest nation on earth, commanding nearly one-fourth of total global wealth. Our share of scientific and technical know-how is probably at least as great. We are looked to for leadership by both industrialized and developing nations.

In the past, U.S. leadership has been the single most important element in attacking these problems. It will be equally essential in the future. Over the next few months, you have the opportunity to ensure that we provide that leadership. The best way to demonstrate that leadership is by making tough choices which ensure that precious U.S. foreign assistance dollars are spent in the most productive and cost-efficient manner.

IV. The Need for a Larger U.S. Contribution to UNEP

Only one international agency is grappling with all the problems just described: the UN Environment Program (UNEP). Established in 1973, UNEP plays an essential role as catalyst, coordinator, and international forum. It is not an operational agency, but a tool which nations -- including our own -- can use to address problems more effectively and cheaply.

UNEP has done a good job. Without UNEP, the world's nations would not be negotiating seriously to regulate the chemical compounds which are depleting the ozone layer. Without UNEP, we would have no place for reaching international consensus on the extent and impacts of the "greenhouse effect," and no forum in which to find a solution. Without UNEP, nations would not have agreed on measures to clean up nine different regional seas, including the Caribbean.

UNEP must continue its work on these vital issues. It should also take other badly needed actions, such as:

- promoting a badly needed international agreement to protect the habitats of endangered species in the poor nations of the tropics, thus eliminating the chief cause of species extinctions;
- helping developing nations improve their ability to safeguard their own environments, thus preventing future Bhopal disasters, hundreds of thousands of pesticide poisonings each year, needless destruction of forests, and the spread of the deserts;
- helping to change the development priorities of national governments and gigantic institutions like the World Bank in favor of more sustainable forms of development;
- publicizing for the world community especially serious environmental threats in time to mobilize a response, as UNEP did in 1984 when it funded a film on a little-known famine in Ethiopia.

UNEP cannot take these actions because it is strapped for funds. UNEP is not even sure of the $30 million a year in national contributions needed to continue its present work, much less the additional resources required to do the things just described. Because of funding uncertainties, UNEP even has been forced to leave vacant staff positions already authorized, thus creating severe management problems and hampering its effectiveness.

The blame lies largely with our own nation. Between 1974 and 1984, the United States contributed $10 million a year to UNEP. But in Fiscal Years 1986 and 1987, we allowed our contribution to decline by 32%, to $6.8 million. This U.S. short-sighted action deprived UNEP of more than 10% of its annual income, caused severe management problems, and sent discouraging signals to other donors.

This kind of false "economy" cannot be allowed to continue. When inflation is taken into account, the U.S. contribution to

UNEP has declined by at least two-thirds since 1974. Yet the problems UNEP was established to address have not gone away, and the evidence of adverse impacts on our own country and its vital interests is even more compelling. In view of the extreme seriousness of these problems, this is a recipe for disaster.

Therefore, we ask this Committee to authorize a U.S. contribution of at least $12 million to UNEP for FY 1988. This would enable UNEP to adopt at its Governing Council meeting next June a two-year program commensurate with the challenges we face. It would sends a signal to other donors, and to the world community, that the United States believes these problems are serious and wants UNEP to address them.

V. Actions Under the Foreign Assistance Act

We have seen that environmental degradation, together with overly rapid population growth, threatens the welfare of many developing nations and the existence of millions of wildlife species with enormous potential benefits. The U.S. bilateral assistance program, one of the world's largest and most effective, can be a major force in helping to solve these problems, if the Congress gives the proper support and direction.

The U.S. Agency for International Development has been a leader in helping developing nations address their environmental problems. Last year the Congress gave additional mandates with respect to protection of tropical forests and wildlife species. The Foreign Assistance Act is now before you for reauthorization. There is a need in this time of limited resources to ensure that AID puts a priority on the things which are most important.

While AID has generally had a good environmental record, there are signs that its commitment is waning. The Agency estimates that obligations for environmental and natural resource activities (excluding major investments for water systems) will decline in FY 88 to about $138 million from a level of about $160 million for the preceding two years. Energy-related activities, especially those concerning energy conservation, also are slated to decline. Funding for AID's central Office of Forestry, Environment and Natural Resources continues at a level of only $4.3 million, down from $5.6 million in FY 86. Population funding is slated to decline.

We recommend that the Congress ensure that AID has the right priorities by enacting: (1) a requirement that AID spend at least $10 million annually to carry out last year's mandate to protect wildlife; (2) a strong directive that AID do more to address Africa's environmental problems; (3) provisions to ensure that AID's efforts in agriculture, energy, water development, and institution-building lead to development which is truly sustainable; (4) a requirement that AID do more to address the extremely serious environmental problems of Central America and avoid doing environmental harm there; and (5) an adequate overall level of funding for population assistance.

These reforms are badly needed on the merits, but there is another consideration as well. If the U.S. foreign aid program is to survive this time of budget cuts, the U.S. public must be convinced that foreign assistance dollars are well spent and making a difference. Too many voters connect foreign aid with waste and propping up unsavory dictators, not helping poor people better their lives. Potentially important constituencies, like the members of the groups I am representing today, need success stories they can identify with. If there is to be a public constituency for foreign aid, the Congress must set for U.S. AID clear priorities which respond to the interests and wishes of the American people. And it must instruct AID to report in clear, understandable terms how that money was spent to help the poor.

This is another reason why the policy changes we recommend are so urgently needed. We know the public understands the necessity of environmental protection. The AID actions we recommend can make a visible difference in safeguarding the environments of developing nations, resulting in many success stories which will help build a constituency for the foreign aid program.

A. Preventing Wildlife Extinctions

We face the horrifying prospect of losing, in just the next few decades, up to a quarter of all the earth's plant and animal species, due mainly to destruction of tropical forests and other habitats. Scientists at last fall's National Forum on Biodiversity, held here in Washington and sponsored by the Smithsonian Institution, warned that we face a wave of extinctions comparable in magnitude to that which destroyed the dinosaurs and many other species some 65 million years ago. Harvard Professor Edward O. Wilson, the "father of sociobiology," has said that this loss of living species is the loss our descendants will least forgive us.

The economic consequences of losing this huge, untapped resource are incalculable but surely enormous. Even now, one-fourth of all prescription drugs in this country had their origin in tropical plants or animals.

Most of the threatened extinctions will occur in the tropics, due to human actions which destroy wildlife and their habitats. U.S. AID can do a great deal to help countries take actions to safeguard habitats and species. The Congress directed AID to do so in 1983 when it enacted Section 119 of the Foreign Assistance Act, sometimes known as the "Pell Amendment." Section 119(b) directs AID to:

> assist countries in protecting and maintaining wildlife habitats and in developing sound wildlife management and plant conservation programs. Special efforts should be made to establish and maintain wildlife sanctuaries, reserves, and parks; to enact and enforce anti-poaching measures; and to identify, study, and catalog animal and plant species, especially in tropical environments.

Unfortunately, AID did not obey this congressional mandate. As of a year ago, the Agency was doing little if any more to protect wildlife than before Section 119 was enacted.

After thorough hearings, including one before this Committee, the Congress responded by amending Section 119.

Both House and Senate approved last fall amendments containing earmarks. This Committee reported out unanimously a bill requiring AID to spend at least $2.5 million to implement Section 119(b) in FY 87, $5 million in FY 88, and $10 million in FY 89, and that bill passed by the Senate without dissent. The House passed a similar measure earmarking $10 million for each of FY 87, FY 88, and FY 89. Unfortunately, no conference was possible due to end-of-session time pressures, and the Congress was able to approve only the lowest common denominator: a $2.5 million earmark for FY 87.

It is barely four months since the enactment of this amendment, but conversations with AID staff indicate that AID is responding positively and effectively to this unarguable congressional directive. AID personnel are enthusiastic about the quality of the projects they are planning to support. Most of these projects had already been designed by experts (such as those associated with the World Wildlife Fund and International Union for Conservation of Nature) and approved by host-country governments, but were languishing for lack of funds.

From our point of view, the earmark was by far the most important part of last fall's amendment. In view of AID's previous record of neglect and its rapid, effective response to the 1986 earmark, we believe this judgment has been proved correct. It follows that this is no time for the Congress to relax. We fear, and private conversations with AID staff confirm, that if the Congress does not earmark funds for the next two years, other priorities again will dominate and the Agency's efforts will decline just when it is essential that they increase.

The reason why the bill passed by the Senate last fall would have earmarked only $5 million for FY 88 was a fear that AID would need a long lead time to find high-quality projects to support. AID's positive experience since the FY 87 earmark was enacted has proved that this apprehension was groundless. Our contacts within and outside AID conform that there are many good projects waiting to be supported; the problem is not a lack of projects but a lack of funds. Moreover, the FY 87 earmark was enacted only last fall, as the fiscal year began. If you report out now a $10 million earmark for FY 88, AID will have until next October to make preparations.

We therefore urge you most strongly, as you reauthorize the Foreign Assistance Act, to replace the current earmark for FY 87 with a $10 million earmark for each of FY 88 and FY 89. The United States could not make a better investment in the future of life on this planet.

The PL-480 program can also be useful in preventing the destruction of wildlife species. We support the recommendation of a Task Force of the Energy and Environmental Study Institute that the authorizing legislation be amended to include conservation of biological diversity as one of the objects of expenditure of PL-480 funds. Although this is a matter within the jurisdiction of the Agriculture Committee, we urge members of this Committee to support such an amendment.

B. The Crisis in Africa

All the groups I represent today have a strong interest in the health of the environment, not only in the United States but all over the world. They are deeply concerned about the ongoing crisis in Africa, a crisis due in large part to the deterioration of the natural resource base while human populations grow at unprecedented rates.

Africa recently emerged from a famine which has caused the deaths of many thousands of people and threatened the lives of millions more. The United States provided hundreds of millions of dollars worth of food aid to prevent further starvation. If this experience is not to be repeated, we must recognize that Africa's crisis is caused to a great extent by the interaction of resource, environmental, and population trends, and that these trends must be reversed if Africa is to enjoy a decent future.

This recognition must be accompanied by a redirection of the U.S. bilateral aid program. This can be accomplished by enacting the major amendment to the Foreign Assistance Act which was introduced on the House side by Rep. Howard Wolpe and others and is supported in the Senate by Sen. Simon.

1. Population and Environmental Problems in Africa

Human populations in Africa are increasing at explosive rates. The United Nations estimates that Africa's population, now about 550 million, will reach 1.5 billion by the year 2025, less than 40 years from now. It is estimated that, before levelling off, Kenya's population will grow from the present level of 21 million to 116 million, Ethiopia's from 42 million to 173 million, Nigeria's from 96 million to 528 million, and so on. In 1983, the Economic Commission for Africa stated that "the historical [population] trend scenario is almost a nightmare."

Explosive population growth means not only that a given amount of food must be parcelled out among more hungry people, and per capita food production in Africa has in fact declined over the past decade. Population growth also means that more farmers are placing greater stress on Africa's fragile natural resource base, unleashing a downward spiral in which reduced productivity generates even more pressure due to the continual need to increase production.

Africa's people are still mainly rural, and most of them depend on nearby natural resources for the great majority of their daily needs. Food mainly is of local origin, and depends on water, productive soils, and wild species of plants and animals. Most people obtain water from neighboring rivers, streams, or wells. About 90% depend on fuelwood, animal dung, or crop residues for heating and cooking. Trees and shrubs provide materials for shelter.

The essence of the problem in Africa is that growing numbers of people live on arid lands where these resources are difficult to produce at best. Climatic conditions -- which unfortunately may persist over the long term -- have caused production of these resources to fall short of the needs of the present population. One result was the recent famine.

If the output of food and other necessities is to increase, the natural resource base must become more productive. But in fact it is deteriorating rapidly.

Perhaps the most troublesome trend is loss of soil productivity. Precise figures for the African continent as a whole are hard to come by, but it is known that little arable land remains uncultivated; that on sloping fields, soil erosion of 20-40 tons per acre is common; that as fuelwood becomes scarce, cow dung and crop residues are increasingly used for fuel rather than to renew the soil; that livestock numbers have nearly doubled since 1950 and in many areas exceed the land's carrying capacity by 50-100%. In addition, drought and erosion are affecting water supplies. Wells dry up; rivers and streams that ran year-round are choked by silt and no longer furnish water in the dry season.

Tree cover enhances water supplies, favorable microclimates, and the ability of soils to resist erosion. Yet in Africa the area cleared of forests each year exceeds by 29 to 1 the area where trees are deliberately replanted. In famine-stricken Sudan, the stock of trees has declined by 25% since 1965; current trends will reduce the stock to one-fourth of the original level by the year 2000.

3. Needed Actions

The productivity of African agriculture depends on a sound natural resource base. The trends of desertification and deforestation must be reversed to meet long-term human needs. And African development cannot possibly be sustained unless the growth in human populations is greatly slowed.

Environmental and social conditions in Africa -- including the weaknesses of national governments, the lack of transport and communications systems, the need for careful management of fragile soils and water supplies, and the existence of strong institutions at the village level -- dictate that these efforts must come from the bottom up, not the top down. The most important efforts must take place at the local level, with strong national support.

The U.S. Office of Technology Assessment recognized this in its excellent December 1984 paper, "Africa Tomorrow." That report states that "the technology most needed in sub-Saharan Africa should be low-risk, resource-conserving, small-scale, affordable (not capital intensive), locally produced and repaired, adapted to local labor availability, and consistent with traditional agricultural methods." It is essential that future U.S. policies toward Africa foster these kinds of local actions, together with supporting actions at the national and regional levels.

At the local level, what is needed is a multitude of small-scale, local efforts to increase food production in ways which protect and restore the natural resource base. These efforts should include agroforestry, small-scale farms and gardens, and other innovative agricultural methods (including energy- and resource-conservation techniques and use of low-input, organic, or regenerative methods where feasible); check dams and terraces and other projects to prevent erosion or protect watersheds; tree planting for windbreaks, soil stabilization, or firewood; energy conservation and small-scale energy production to reduce consumption of firewood and animal wastes otherwise usable as fertilizer; and local health and training efforts.

These projects can only succeed when local people are involved at all stages of project design and management. There must be greater involvement of African women, who usually are the ones who actually labor in the fields. Projects should routinely include training and educations components designed to prepare local people to participate fully and to take over when foreign assistance ends.

Commonly, the best way to involve local people will be through local governmental organizations, such as village councils; local nongovernmental organizations; or U.S. private and voluntary organizations. A constant theme among aid agency personnel and others who have spent time on the ground in Africa is that projects administered by these types of organizations are most likely to succeed. African development must build on this field experience, so that these projects are not isolated examples but the norm.

We would emphasize especially the role which must be played by indigenous African groups. Village institutions in Africa are relatively strong. They must be involved in the planning and implementation of projects, and in their administration. Village people must be educated, trained, and otherwise prepared to carry on after external assistance comes to an end. The growing number of national and provincial indigenous nongovernmental organizations can help make this happen, as can international nongovernmental organizations like the Nairobi-based Environment Liaison Centre, the International Union for Conservation of Nature, and the World Wildlife Fund.

Purely local actions will not be sufficient to maintain and restore the natural resource base. The local projects just described must be backed up by efforts at the national level to establish or strengthen institutions such as environmental authorities, nongovernmental organizations, and soil conservation, agricultural extension, and forestry services; provide seeds, seedlings, energy-efficient and resource-conserving devices, and other needed materials; and create financial mechanisms to furnish credit to small farmers.

There is a need for training and education activities at the national as well as the local level. These should include support for African training and educational institutions; development of curricula; training and education through national institutions in Africa; establishment of cooperative relationships between U.S. and African educational institutions; support for natural resource managers to participate in conferences, courses, and the like; and training of trainers.

At the regional level, one of the most urgent needs is to relieve African nations of the crippling burden of foreign debt.

There is increasing recognition that the poor countries of sub-Saharan Africa cannot afford both to service these debts and at the same time make the investments needed to put them on the path to sustainable development. Crucial investments in maintaining and restoring the natural resource base and small-scale agriculture will be impossible if nations are continually preoccupied with staving off the next call from creditors and foreign assistance is aimed largely at "rolling over" old debts.

2. Actions Needed To Stabilize Populations

Development cannot be sustained unless human populations stabilize at levels where natural resource systems can provide the products required to meet human needs. The current explosive population growth in Africa is clearly unsustainable, and among other things is placing unsustainable pressures on the fragile natural resource base. Many African governments at last are recognizing the need for strong actions to slow population growth. They need advice and help.

U.S. AID has been the leader and innovator with regard to family planning and population policy development for more than 20 years, through both a strong bilateral assistance program and heavy utilization of private family planning organizations. Unfortunately, U.S. withdrawal from multilateral donors like the UN Fund for Population Activities and the International Planned Parenthood Federation under the current Administration has reduced U.S. Government leadership at a critical juncture. It is imperative that we reassert our leadership role.

The Administration's budget proposal for FY 88 appears to include only $58 million for Africa, a drop from $90.4 million in FY 86. Bilateral programs are proposed in only three countries (Kenya, Niger, and Rwanda), for a total of $9.4 million. Despite commitments by Administration officials to major population activities in Nigeria, there appears to be no money for these activities in the proposed budget.

U.S. AID needs to do much more if Africa's population is to stabilize at sustainable levels. In cooperation with UNFPA, IPPF, and other major family planning PVOs, U.S. AID should establish a major bilateral population program in each African nation eligible for U.S. assistance. This will require increased funding for population assistance in Africa.

3. The Urgent Need for New Legislation

New legislation is required if these actions are to occur on the right scale. U.S. AID has supported some efforts of the right kinds with respect to both population and the environment, but these efforts are not large enough in magnitude to make a real difference. For example, AID appears to be supporting only a relatively few small-scale, local projects aimed at maintaining and restoring the natural resource base, despite the fact that both outside experts and its own technical advisers recommend that these efforts be given a high priority. Only congressional direction can ensure the right level of effort in the face of budgetary pressures and competing priorities.

Fortunately, legislation to restore U.S. leadership is at hand. The bill introduced in the House by Rep. Wolpe and supported in the Senate by Sen. Simon was drafted with the participation of the groups I represent today. Its environmental provisions are very similar to those of S. 1364, a bill introduced in the last Congress by Sens. Kassebaum, Kerry, Sarbanes, Boschwitz, and others. Its environmental provisions require the emphasis on village-level projects which we find so important. It directs AID to step up its family planning assistance. It provides for a five-year grace period on repayment of official bilateral debts.

One provision which we deem absolutely essential and without which we cannot support this legislation is the requirement that at least 10% of U.S. bilateral development aid funds in Africa be spent on the natural resource activities described in the bill and another 10% on family planning assistance. In a time of tight budgets and hard choices, the Congress must make AID's most important priorities absolutely clear. Those priorities must include population and natural resources if we are to help Africa's emerge from its crisis.

C. Ensuring that Development Is Sustainable

The Congress has given AID several mandates to address environmental problems in developing nations, most notably in Sections 118 and 119 of the Foreign Assistance Act. However, the Agency still has a tendency to regard these "environmental" activities as separate from its core mission of helping countries develop. This is a misconception: the objective should not be a set of "environmental" activities here and another set of "development" activities over there. Rather, AID should have the overall goal of helping nations achieve development which meets human needs and at the same time is sustainable and environmentally sound.

The Africa legislation which we support recognizes this by combining agriculture and natural resource activities under the same heading. However, even if it is enacted, the Agency will still be lagging in its other activities in such key areas as agriculture, water development, energy, and institution-building.

1. Agriculture

AID's new emphasis in agriculture is on raising rural incomes. We are concerned that this emphasis, and the program proposed to carry it out, may ignore two key elements. First, AID's overall mission is to aid the "poorest of the poor." Many of these people are subsistence farmers, largely outside the money economy. If AID interprets its goal to be the improvement of rural incomes measured in money, these people will be left out. Second, raising incomes by itself will not ensure that development is sustainable. Too often, we have seen incomes raised over the short term by "mining" soils or forests, the end result being worn-out lands and starving people.

This is not a theoretical concern. We see an AID agriculture program still overly focussed on emulating the agriculture of the West and not geared enough to the real needs of desperately poor people concerned about subsistence, lacking the money to pay for fertilizers, fuels, and pesticides, and unaware of techniques which can maintain and enhance the fertility of their soils. For them, a key necessity is what has become known as "low-input" agriculture: organic, regenerative, and other low-cost, low-input farming methods which use affordable, low-energy, resource-conserving techniques, and agricultural methods which utilize the productivity of natural systems, as through wildlife ranching or sustainable use of wetlands.

Accordingly, we recommend that the Congress amend Sections 103 and 103A of the Foreign Assistance Act to require that AID put a high priority on support for low-input farming methods. AID should support both field projects and relevant research.

2. Energy

We are disturbed that AID is decreasing its energy assistance, especially in the area of energy conservation. There is great potential for energy conservation in developing nations, and AID should be helping them to realize it. AID should also be doing more to help countries develop renewable energy resources, especially biomass.

AID's energy mandate, in Section 106 of the Foreign Assistance Act is confused and outdated. It puts considerable emphasis on assistance in developing fossil fuels. This is a misplaced priority in view of the growing concern about global warming due to the "greenhouse effect," since that effect will only be exacerbated by greater reliance on fossil fuels. Moreover, energy conservation and renewable sources commonly are more cost-effective than reliance on fossil fuels.

Accordingly, we recommend that Section 106 be amended to focus AID's energy assistance on renewable energy and energy conservation. The Congress should make clear that these kinds of assistance should have the highest priority and that fossil-fuel production will not be assisted.

3. Water Development

We also recommend an amendment to Section 103 to ensure that AID's assistance in water development is cost-effective and sustainable. As in this country, water projects in developing nations often have been wasteful of money and other resources. As in this country, they should be subjected to benefit-cost analysis; steps should be taken to ensure that water is not used unsustainably or treated as a free good; and local people should be involved in project planning and implementation.

4. Institution-Building

Finally, we urge that the Congress amend Section 118, as recommended in 1985 by a Task Force of the Environmental and Energy Study Institute, to give AID an explicit mandate to provide assistance to the environmental and natural resource agencies and authorities of developing nations to strengthen their institutional capabilities to manage environmental and natural resource policies and programs. Many developing nations lack the capability to manage their own environments and natural resources, and this kind of assistance is badly needed.

D. Central America

1. Need for Actions To Solve Environmental Problems

Central America is obviously a key area for U.S. bilateral assistance. The Administration has proposed that in FY 1988 Belize will receive $9 million for country programs, Costa Rica $103 million, El Salvador $276 million, Guatemala $113 million, Honduras, $140 million, and Panama $29 million. Another $61 million is to flow through regional programs, and $94 million more under PL-480, for a regional total of $826 million.

The purpose of this huge flow of funds to a small region, with a total population of only 25 million, is to secure the region's economic and political future. Unfortunately, the proposed program of assistance for FY 1988 largely ignores the fact that rapid environmental deterioration in the region is a major cause of economic and political instability, and that the goals of U.S. assistance cannot be realized without addressing these environmental problems.

The region's population is expanding very rapidly. Unsustainable agricultural and forestry activities are reducing agricultural productivity due to erosion, and hydroelectric potential due to siltation. Overfishing and coastal habitat destruction are reducing fish catches. Armed conflicts and related activities, such as construction of roads and bases and resettlement of refugees, are causing additional environmental harm. The consequence is that natural resource systems are unable to support growing populations. This leads in turn to rural instability, migration to already overcrowded cities, and greater emigration from the region to the United States.

Plans for economic progress and political stability depend on a productive rural economy. Yet this will be impossible unless environmental degradation is reversed. Of the huge amount of proposed U.S. assistance, only a small proportion -- perhaps 7% -- is devoted to environmental restoration. U.S. AID has the capability to do much more, and the Congress should direct it to do so. AID should be supporting in each country of the region:

- Family planning programs to reduce population growth.
- Improved cropping systems and advice to farmers on how to control erosion.
- Forest management and reforestation programs.
- Upstream watershed management above hydroelectric projects.
- Integrated pest management to reduce pesticide use.
- Protection of the habitats of marine fish.
- Assessment of land capabilities and environmental impacts before undertaking development activities, including land reform.
- Efforts to build the capacities of the region's nations to manage their own natural resources sustainably, and to foster indigenous nongovernmental organizations.

2. Medfly Eradication

The groups I represent today are concerned about the environmental implications of two projects of the Department of Agriculture's Animal and Plant Health Inspection Service (APHIS) aimed at pesticide eradication of the Mediterranean fruit fly in Central America. The first, known as CAPMED, is a $ 350 million multilateral effort that is yet to get off the ground. A 1985 APHIS technical report conceded that "the benefits of a Medfly eradication program under the most optimistic assumptions do not outweigh the costs," and the report's economic analysis demonstrates that the benefits to Central American countries targeted by CAPMED for Medfly eradication would be minimal. An AID team examining the issue recently concluded:

> It is noteworthy, that the total eradication of the medfly would have little or no relevance to the current problems with the export of fruits and vegetables into the U.S. There are reportedly up to 14 other fly species of potential regulatory concern, which would occupy the ecological niche currently held by the medfly, if eradication were to be successful. Thus, the real economic advantage of such a program to individual Central American countries is subject to question.

Not surprisingly, the World Bank recently rejected a U.S. request to fund the CAPMED program, citing serious environmental issues. We have similar concerns.

A second, equally disturbing project known as MOSCAMED involves eradication strictly in Guatemala, using Public Law 480 "Food for Peace" funds jointly administered by APHIS and AID. Even this localized project is unnecessary from the point of view of preventing Medfly entry into the United States, because the insect has already been eliminated from Mexico. MOSCAMED, like CAPMED, will rely heavily on the chemical pesticide malathion, and may involve use of ethylene dibromide (EDB) as well. AID is currently beginning preparation of an environmental assessment, a process in which NRDC and the Sierra Club will participate. We urge this Committee to make its concern known by notifying AID that:

o full-scale environmental assessments, in strict conformance with AID's environmental procedures and including full consideration of all non-pesticide alternatives (including the option of taking no action), should be completed and transmitted to this Committee prior to any expenditures on the CAPMED or MOSCAMED projects;

o a full cost-benefit analysis should be undertaken for both programs, taking into account the cost of environmental damage and fully considering what benefits, if any, would accrue to Central American countries;

o no use of EDB -- which has been banned in the United States -- should be permitted.

E. Adequate Funding for Population Assistance

The preceding has made it clear that overly rapid growth and environmental degradation in developing nations are inextricably linked. We cannot achieve sustainable development without stabilizing populations.

Last year the Congress recognized the importance of population assistance by appropriating $236 million for AID's efforts in this area during FY 87. Even this amount reflected a substantial decline from the FY 85 level of $290 million and the FY 86 level of $250 million. However, the Administration immediately siphoned off funds for unrelated activities, leaving a usable total of only $211-214 million. For FY 88, the Administration is requesting less on a worldwide basis (including amounts in the proposed Africa Fund) than last year's appropriation.

We think it essential that the decline in funding for these crucially important activities be halted. We urge this Committee to authorize for FY 88 at least the FY 87 level of $236 million, taking into account the amount included in the proposed Africa Fund, and insist that this much actually be spent on population assistance.

VI. The Role of the Peace Corps

Peace Corps volunteers have done some excellent work in helping developing countries maintain and restore their environments and natural resources. The ability of volunteers to work closely with local people has proved especially valuable. Approximately 10% of all volunteers are currently working on environmentally related projects. However, the Peace Corps' environmental program is limited by the lack of an institutional focus. The Peace Corps does not even have one permanent employees to plan, coordinate, and support its environmental activities. In addition, it appears that the Peace Corps will be unable to meet the growing demand for natural resource specialists over the next few years, unless extraordinary steps are taken.

Accordingly, we urge the Congress to amend the Peace Corps Act to require that the Peace Corps strengthen and expand its forestry, environment, and natural resource efforts. The Peace Corps should be told to hire permanent staff in this area and plan a comprehensive program to address these problems. This has also been recommended by a Task Force of the Energy and Environmental Study Institute.

VII. The Multilateral Development Banks

The environmental performance of the multilateral development banks (MDBs) of which the United States is a member -- the World Bank, Inter-American Development Bank, African Development Bank, and Asian Development Bank -- has been a subject of intense interest over the past several years. Evidence of environmentally counterproductive World Bank projects in Botswana, Kenya, Indonesia, Brazil, and other countries has triggered close examination of the environmental consequences of MDB activities by the public, the press, the Congress, and the Executive Branch. For example, according to the World Bank's own documents, its $112 million "Bura" irrigation and resettlement project in Kenya caused destruction of tropical forests, pesticide contamination of drinking water supplies, and rampant disease, with the cost of resettlement eventually reaching $40-50,000 per family.

A. The Need for New Authorizing Legislation

The MDBs have no systematic procedures, such as those contained in the National Environmental Policy Act, for examining the environmental consequences of their planned activities and the alternatives. The World Bank's tiny Office of Environmental and Scientific Affairs may not have any input into project planning until major redesign is impossible. The African Development Bank only recently took on two environmentally trained professionals. The Inter-American Development Bank still has no permanent environmental staff.

The Congress and the Administration have taken some steps to improve the environmental practices of these institutions. The House Banking Committee in 1984 adopted detailed recommendations addressed to the Executive Branch as well as to the banks

themselves. Crucial elements of this reform agenda were incorporated into appropriations legislation for Fiscal Years 1986 and 1987. Secretary of the Treasury James Baker last year personally intervened to establish standards for U.S. votes on livestock projects in sub-Saharan Africa -- an especially environmentally sensitive area -- and directed the U.S. representative to the World Bank to vote against a loan to Brazil that would finance the construction of several environmentally harmful dams. With advice from experts from the environmental community, the Treasury will soon adopt standards for U.S. approval of MDB loans that might have adverse impact on tropical forests and wetlands.

Despite this scrutiny of their activities, the MDBs themselves have made only slight progress. In the most significant development to date, incoming World Bank President Barber B. Conable directed his staff to report on institutional changes that could improve the environmental quality of the Bank's lending. Representatives of environmental organizations met with a committee of Bank staffers last summer to advise on necessary improvements. Unfortunately, the recommendations of that committee have still not been acted upon. Instead, the issue of structural changes aimed at improved environmental performance has been subsumed in a larger study of Bank reorganization. In the meantime, the Bank has included in its budget fcr its coming fiscal year eight additional staff positions, which President Conable has described as a "token of good will" and a "down payment" on further positive actions.

This Committee soon will consider a three-year commitment for the International Development Association (IDA), the "soft loan" window of the World Bank. The U.S. share currently amounts to nearly $3 billion. The Committee also has jurisdiction over the statutes governing other U.S. contributions to the MDBs.

The groups I represent today are strong supporters of the basic mission of the World Bank and the other MDBs. However, we are convinced that the banks can succeed in that mission only if their policies and practices are environmentally sound. To ensure that the U.S. contributions to the banks -- including the IDA contribution -- are well spent, this Committee should add appropriate amendments to all the relevant authorizing statutes.

Briefly, these amendments should require that the U.S. Government review fully proposed projects which are environmentally sensitive, oppose projects with major adverse environmental impacts (similar requirements already apply to loans to countries that expropriate United States property or fail to halt traffic in illegal drugs), and vigorously encourage the banks to:

- institute processes for examining environmental impacts and alternatives which ensure that each environmentally sensitive loan -- including "sector" loans as well as loans for specific projects -- is subject to a detailed assessment;
- adopt guidelines requiring the most careful review before approval of especially sensitive types of loans -- such as those for resettlement schemes, large dams, livestock projects, and projects affecting tropical forests or wetlands;
- take full account of the environment and natural resources when they assist borrower nations in development planning;
- support small-scale, environmentally beneficial projects, and establish lending targets to ensure that at least a specified proportion of their lending (e.g., 20%) is devoted to such projects;
- institute environmental training programs for their staffs and increase their environmentally trained personnel (the Inter-American Development Bank still has no permanent environmental staff, and should be pressed to hire some);
- allow public access to information and ensure that governments which are members of the banks receive detailed descriptions of projects proposed for loans at least 30 days before their representatives must vote on those loans;
- consult with nongovernmental organizations and the public in borrowing countries in the design of proposed projects.

The Treasury should be required to report annually on progress.

A cornerstone of United States policy with respect to the MDBs should be to encourage loans that will preserve, enhance, and restore the environment and natural resources. An anticipated World Bank loan to Brazil designed to support environmentally beneficial policies appears to fall in this category.

The information practices of the MDBs are especially deficient. At present, only capsule descriptions of projects are officially available to the public. Access to more detailed information, particularly before project approval, is critical, especially within borrowing countries. The legal and policy justifications for secrecy are questionable, and the Congress should insist that the U.S. Government press vigorously for reforms.

B. U.S. AID Early Warning System

U.S. AID has for some years systematically collected economic information from AID field missions and U.S. embassies concerning projects being planned by the MDBs, in order to assist the Treasury Department in reviewing them. About a year-and-a-half ago, AID began collecting environmental information as well, with the aim of identifying at an early stage projects likely to have adverse environmental impacts.

To establish a more effective environmental "early warning" system, appropriations legislation for FY 87 required that: (1) the Executive Branch follow up on reports of adverse environmental effects with inquiries to the MDB in question; (2) the public be given access to information collected through the system; (3) AID publish semiannually a list of projects under investigation; and (4) the information be shared with other governments. AID published the first list at the end of last year. The positive effects on MDB environmental policies of this independent oversight mechanism are already apparent.

This system needs to be strengthened and put on a permanent basis. Accordingly, we recommend that this Committee include in the Foreign Assistance Act a mandate similar to last year's appropriations language. This amendment should correct flaws in the present system by requiring affirmative investigation of types of projects -- such as resettlement schemes, large dams, cattle projects, and projects which affect tropical forests and wetlands -- most likely to be environmentally harmful.

VIII. Conclusion

By acting in the ways we have recommended, this Committee can ensure that the United States provides the leadership essential to solving global environmental problems. We urge you most strongly to take these actions so important to the future of the earth.

PREPARED STATEMENT OF W. HENRY MOSLEY

Mr. Chairman: I am a physician specializing in public health problems in the developing world. I have worked on health problems in the developing world for 25 years and have lived in developing countries for 14 years--8 years in Bangladesh, 3 years in Kenya, and 3 years in Indonesia. Much of my research has been directly concerned with population problems and family planning programs in these and several other countries around the world.

A Perspective on World Population Growth

Throughout most of recorded human history, large families and rapid population growth were the hallmarks of personal prosperity and national development. Perhaps at no time in history was this more true than among our own European predecessors in the last two centuries. Beginning with the Age of Enlightenment and Exploration less than 400 years ago, our European ancestors embarked upon a process of unprecedented development and rapid population growth. Europeans literally burst out of their homelands and spread over the globe, rapidly populating the vast continents of North America, South America, Australia and New Zealand. Even this was not enough to fuel the engine of development, and Europeans went on to colonize most of Africa and Asia.

Consider the dynamics of population change that occurred over this time. In a period of approximately 350 years from 1600 to 1950, the population of the world increased five times, rising from about one-half billion to 2.5 billion persons. This population growth was the consequence of a steady decline in mortality which accompanied social and economic development and which initially was not balanced by a concomitant decline in fertility. However, gradually, over more than a century, our European predecessors completed their demographic transition and birth rates were brought into near balance with the death rates by the middle of this century.

The modern demographic picture has been totally different for developing countries. In the period following World War II when most of these countries gained their independence and were struggling for political, economic, and social development, they were the beneficiaries of a flood of modern medical technology which produced dramatic declines in mortality. The drop in death rates in only 30 years for many of these poor countries was even greater than the declines the now developed countries had experienced over a period of 200 years.

This precipitous mortality decline occurred before these countries had the opportunity to educate their populations or establish the physical infrastructure to raise national productivity and improve standards of living. As a consequence, high birth rates showed little change, resulting in unprecedented population growth. Between 1950 and 1987, a space of only 37 years, the world added another 2.5 billion people to reach the current population of more than 5 billion. This burst in population occurred in only one-tenth the time span that the now developed countries had to complete their demographic transition.

Perhaps this population growth would not be so consequential if the world had a few more empty continents to fill up, but this is no longer the case. Bangladesh, with 100 million people in an area the size of the state of Georgia, cannot look to emigration to alleviate its population pressure. Not only must the developing countries somehow manage to pull themselves through this second stage of the demographic transition, but they must achieve it under constraints of internal debts and global economic circumstances that make it extremely difficult to reach the level of economic development necessary to facilitate this process.

Indeed, it is not impossible for impoverished nations to rapidly make the demographic transition. Two of the most noteworthy examples of this in the post World War II period have been Japan and China. Japan, facing the destruction of its colonial empire and devastation of its economy with World War II, passed the Eugenics Protection Act in 1950 which provided for birth control for the Japanese population. In less than three decades, fertility has reached replacement levels. China, taking a stronger policy and programmatic position in the early 1970s, accomplished the unprecedented halving of its fertility rate in a 15-year period; however, along with a few small countries such as Hong Kong, Singapore, and Cuba, these nations stand out as exceptional cases in the post World War II period. The vast majority of the developing countries still have fertility levels that will lead to doubling of their population in two to three decades.

Thus we now have a demographically divided world. Roughly half the world's population, or 2.5 billion, live in countries that have completed or are rapidly completing the demographic transition. These countries, with an annual growth rate of 1% or less, are largely confined to Europe, North America, Australia, New Zealand, and East Asia (primarily China and Japan). The other half of the world's population residing in South and Southeast Asia, the Middle East, Africa, and Latin America, with annual growth rates ranging from 2% to 4%, face a very different demographic future. The population projections for these two sets of countries reveal the striking contrasts. In the first group, the European countries and the United States may only expect increases in the sizes of their population of from 5% to 20% over the next several decades. Even for China, the largest nation in this group, the projected growth of the population is less than 50%. By contrast, for the second group of nations, a 100% increase in population is projected for India, Indonesia and Brazil. India seems now destined to become the largest country in the world, surpassing even China in 60 years. Increases greater that 150% are projected for Mexico and Egypt. 200% increases in population are projected for Bangladesh and Pakistan, while incredible increases of 400% or more are projected for most African countries including Nigeria, Kenya and Ethiopia.

What we have here is a potential for many developing countries being caught in a "demographic trap", that is, an inability to make it past the stage of rapid population growth by reducing birth rates and completing the demographic transition. Economists may call this a "poverty trap". It all depends on one's perspective. The point is, in order to successfully complete the demographic transition and bring birth rates into balance with death rates, a country requires vigorous policies and programs that promote social and economic development as well as support and encourage voluntary family planning.

It must be stressed that this second stage of the demographic transition, with the high birth rates producing rapid population growth is unstable. It cannot persist indefinitely. Population growth rates must decline, either by conscious efforts through social and economic development coupled with family planning programs, or by social and economic collapse and rising death rates. We already have evidence of both processes at work: China, Thailand, Jamaica, Taiwan, Indonesia, and some other countries illustrate the former process, while the vast streams of refugees from the famine-stricken areas of Sub-Saharan Africa are indicative of the latter process.

Let me address the concerns of individual couples in developing countries. We need to appreciate that in supporting family planning programs we are not imposing alien ideas on the people in these countries; rather, for the first time we are giving millions of couples the opportunity and freedom to take control of a critical part of their lives and begin to shape their own destinies. We believe in economic freedom, but how can we encourage it if we do not help couples who want to break out of the bondage of uncontrolled reproduction. Look at the evidence. In countries as diverse as Bangladesh, Egypt, Brazil, Mexico, and Indonesia, national surveys have revealed that from one-half to two-thirds of the women want no more children. Yet these same studies indicate that less than half of these women are taking measures to effectively control their fertility. Why not? Because they lack either the knowledge, the means, the access, the medical backup, or the social support to act on their own desires. Only through a vastly increased effort in strengthening family planning programs can we begin to meet this expressed need for services.

My own personal experience in Bangladesh is relevant to this issue. In the mid 1970s I was involved in a family planning research project covering 80,000 persons in 80 villages which was designed to assess the magnitude of the unmet need for family planning services and how to most effectively meet the demand. In the initial stage only oral contraceptives and condoms were made available by a simple household delivery program. Within three months of the initiation of the program, over 30% of the women had accepted a contraceptive method; however, over the next 18 months there was a high rate of dropout because of lack of sufficient social support and medical backup. The program was modified to provide a full range of services including the intrauterine device, injectibles, and female sterilization with basic medical backup. Contraceptive practice rapidly rose to almost 40% of eligible couples and the birth rate dropped by over 25%. This program, which now supports over 50% of the couples in contraceptive practice, serves as a model for the national program. It is encouraging to note that currently in Bangladesh, one couple in four is practicing family planning, but it is tragic to observe that more than half the women who have expressed the desire to stop childbearing have not yet been effectively reached by the national program.

Just two weeks ago I was in Egypt and saw essentially the same picture. More than half of the married women desired to stop childbearing, yet because of a poorly supported family planning program, less than one-third were currently using any method.

I have also personally seen the devastating consequences when family planning services are not made effectively available. For example, when I was carrying out an assessment in Turkey in 1974, I learned that the most common condition being treated by most obstetricians in that country was complications of illegal abortion. Similarly in 1979, while analyzing the medical records of Kenyatta National Hospital, the premier medical center in Nairobi, Kenya, I learned that the single most frequent admission diagnosis was complications of illegal abortion. This condition accounted for 14% of all admissions. In both countries, this problem was occurring among married women who were desperately seeking to terminate childbearing but who had neither the knowledge nor the means to do so through the use of modern contraception because family planning services were not reaching them.

I want to add that family planning not only protects the health of mothers but also of children. In the World Fertility Survey of 27 countries, one of the most consistent factors associated with high infant mortality was an excessively short interval between births. Generally, children born after an interval of less than two years have twice the risk of dying as compared to those spaced four years or more. This factor becomes important when we consider that in many developing countries, 25% or more of the births are spaced at intervals of less than two years.

Next week I will be going on a 5-week consultation to Nigeria. Nigeria, the largest nation in Sub-Saharan Africa with 100 million people, has only this past year adopted a national population policy focused on providing family planning services to all its citizens. Major international technical assistance has been requested. While not underestimating the problems ahead, this country could be a model for all of Africa if sufficient support is available. If not, it faces the prospect of a fourfold or greater increase in population in the next 50 years which will greatly compound the critical economic problems it is now facing.

The Nigerian situation highlights urgency for increasing support for family planning and population programs. I have provided some illustrative projections of the foreseeable population growth. For many countries around the world the prospects are ominous. The reason for urgency now is that population growth has a built-in momentum. This results because a rapidly growing population keeps adding more and more children in each successive year, producing a broad-based population pyramid. Since the females who will be entering the childbearing age (15 years) have already been born, we only have to count the children under 15 to establish the fact that the number of new mothers by the turn of the century will be from 40% to 70% greater than those presently in the childbearing years. This enormous growth of the population of women in the childbearing years, coupled with the well documented vast unmet need that currently exists in most poor countries, should make it obvious that this is the time to expand the resources available for countries currently being assisted by the U.S. government.

There is the saying "penny wise, pound foolish". This could not be more true than for family planning programs. Any reduction in funding in this area does not simply slow down programmatic activities, as might occur in other development sectors. Rather, each additional unwanted birth compounds the problem of national development in every sector for an entire generation as these added children require food, clothing, shelter, health care, education, jobs, and, ultimately their own family planning services when they begin childbearing.

PREPARED STATEMENT OF KENNETH H. PHILLIPS

Mr. Chairman, I appreciate this opportunity to testify before the Senate Foreign Relations Committee on foreign assistance legislation for FY 1988. I am the National Executive Director of Foster Parents Plan Inc., located in Warwick, Rhode Island.

Foster Parents Plan is an international sponsorship organization respected around the world. Our program of self-help, grassroots development and personal communications between Foster Parent and Foster Child is an effective and efficient way to improve the lives of needy children and their families overseas. Worldwide, Foster Parents Plan assists over 270,000 Foster Children and their families in 21 developing countries in Africa, Asia, Latin America and the Caribbean. We have over 70,000 U.S. citizens as sponsors and our budget is 95 percent private monies. While our programs are solidly based on private donations, we believe that the 5 percent of our funding from U.S. government grants provide a very important dimension to our programs.

There are 189 registered private voluntary organizations and cooperatives with the U.S. Agency for International Development as well as hundreds of indigenous organizations in developing countries. More than 100 of these PVOs and cooperatives are represented by INTERACTION, the American Council for Voluntary International Action. I am the Secretary of the Board of Directors of INTERACTION.

While I am not speaking on behalf of INTERACTION, the comments which I will be making are endorsed by a number of U.S. PVOs, cooperatives and other development agencies which are listed at the end of my statement.

Accompanying me today is Ted Weihe, the Executive Director of the U.S. Overseas Cooperative Development Committee which consists of senior representatives from twenty U.S. cooperative organizations and the World Council of Credit Unions. Formed in 1961, OCDC represents more than 60 million Americans who are served by these cooperative organizations.

A private and public partnership has evolved for the delivery of humanitarian and development assistance between the U.S. government and private voluntary organizations (PVOs) and cooperatives. Private voluntary organizations have emerged historically from the expressed concerns of individual citizens and private organizations about those suffering in this country and throughout the world. In a real sense, PVOs manifest the values that Americans hold in their religious convictions and their individual consciences. The success of these private agencies has flowed directly from their commitment to humanitarian values and their ability to reach out to the less fortunate on a people-to-people basis.

Over the years, the partnership between these private groups and the U.S. government has not been without tension, given their different roles.

However, in general the partnership has been fruitful. Private organizations working with our government have become an ever-increasingly effective vehicle for channeling American humanitarian assistance from both public and private sources to those in greatest need.

This view is appreciated and recognized by Agency for International Development, which notes:

> PVOs have a number of special characteristics that enable them to reach the poorer groups in countries where they operate. Some of the factors contributing to this effectiveness include their organizational flexibility and innovativeness, their ability to mobilize local resources, their capacity to work outside of government channels and their ability to work in remote areas beyond the reach of other support systems. AID's partnership with the PVO community is based on these proven capabilities. PVO effectiveness in bringing these unique characteristics to bear derives from the autonomy these agencies enjoy as a result of their ability to mobilize financial, volunteer and in-kind contributions from the private sector (U.S. Agency for International Development, AID Position on A Privateness Requirement for PVO Funding, April 23, 1985.)
>
> The evidence on hand indicates that PVOs are effective in conducting low-cost, rural-based, innovative development programs which complement official development programs. In particular, they tend to serve the poorest, neediest and most difficult-to-reach populations in the Third World. By concentrating on this group, PVOs reach those least able to help themselves and least likely to be served by their own governments or international donor agencies (Development Effectiveness of Private Voluntary Organizations, submitted by AID to House Appropriations Committee, February 1986, p. 7)

For these reasons, private voluntary organizations have been called on by the Congress, the Executive Branch and the American people to do even more. The recent crisis in Africa provides dramatic evidence of the confidence that the American people place in private organizations and their capacity to respond effectively and on short notice.

Private voluntary organizations today raise more private funds than are provided in official development accounts. One or two of the larger private agencies have more personnel than the Agency for International Development and the 189 currently registered organizations have many times as many field staff. Despite this support by the American people, the U.S. government continues to rely heavily on government-to-government development programs. A recent AID study indicates that in FY 1985 only 13.2 percent of development assistance expenditures, including ESF project assistance, was provided directly through private sector organizations. Of that total, only 8.8 percent was provided to the nonprofit private organizations and cooperatives. (Source: AID's Assistance to Private Sector Development, KMA & Associates, Inc., Middleburg, Virginia, March 1986.)

These figures are not consistent with AID's reporting requirements to Congress. This Committee and Chairman Pell have worked diligently over the years to increase the percentage of AID funding through PVOs. He authored legislation which sets a floor of 13.5 percent and a target of 16 percent for these people-to-people programs. AID has exceeded the minimum in recent years; however, the total has steadily declined from a high in fiscal year 1985 of about 20 percent. In the FY 1988 request, AID estimates 16.9 percent of their programs will be provided through PVOs. This percentage may increase slightly since AID tends to increase PVO funding at the end of its fiscal year.

We believe that the PVO funding floor has been essential to maintaining the integrity of AID's support for PVO programs and indicative of the Congressional views that more U.S. assistance should be provided through private sector, non-profit organizations. We urge the Committee to not only maintain the floor, but increase it to 15 percent in 1988 and set a new target of 25 percent over the next four fiscal years. This action by the Committee will arrest the recent declines in AID-funded PVO activities and continue to express the Congressional support for the 189 registered U.S. PVOs which reach into every corner of American society. They truly express the American spirit of self-help and concern for the less fortunate overseas to which millions of citizens entrust with their own contributions.

Government-to-government programs offer a number of significant benefits in meeting U.S. foreign assistance objectives. They are politically attractive in some countries, especially as a means of enchancing U.S. security interests, enable easier-to-manage large-scale programs, and support services such as education, public health and research.

Yet, the figures indicate that there is an imbalance of funding between governmental and private sector approaches. Government-directed U.S. foreign aid may thwart economic progress in some developing countries by strengthening public bureaucracies and stiffling the growth of people-based organizational infrastructures. Often, U.S. foreign aid loans and grants to host governments are backed up in pipelines around the world.

This problem was addressed in the report of the Kissinger Bipartisan Commission on Central America which noted that direct government-to-government aid is appropriate for short-term stabilization. But, the Commission recommended a major shift in aid over five years to private channels for achieving sustainable economic growth in the region.

Congress has recognized the importance of the private sector in channeling development assistance. In 1985, passage of the Gilman/Danforth Amendment authorized a comprehensive study of additional ways to provide development assistance through nongovernmental organizations including cooperatives.

> Aid's experience, as well as that of developed countries, has proven that the private sector is more efficient than the public sector in supporting solid economic performance. The private sector's efficiency stems from competitive stimulus of market forces, entrepreneurial drive, the profit

> motive, and economic incentives and motivations. AID has found that reliance on the private sector is the most effective channel for LDC economies to gain access to the world markets and marketing systems, innovative technologies, and managerial and financial resources needed for sustained economic growth.

The study notes that "A.I.D. has made subtantial progress in demonstrating that it is committed to the notion that a vigorous private sector is key to development by redirecting many of its resources, programs, and personnel toward market-oriented, private sector activities."

> In recent years, the Agency for International Development has attempted in major ways to break out of the government-to-government mode of delivering economic assistance. Its efforts are distinguished from prior private sector initiatives by: (a) greater emphasis on creating an appropriate "climate" in recipient countries; (b) greater use of U.S. nongovernmental organizations; and (c) greater use of indigenous nongovernmental organizations as vehicles for development. (Benefits of and Impediments to Providing Assistance through Nongovernmental Organizations: A Report to Congress, AID, September 1986).

Last year, the House and Senate Appropriations Committees include language supportive of this more private sector type of assistance in appropriations measures for fiscal 1987.

The Senate urged that any reductions in development assistance be "targetted to governmental assistance channels where possible" while maintaining existing levels of funding to private-sector organizations. "It is the belief of the Committee that private voluntary organizations, cooperatives and other non-profit private sector organizations' programs are highly effective and often can better reach the poor than other types of foreign assistance."

The report of the House Committee on Appropriations noted:

> In implementing the Committee's reductions for AID accounts, the Administrator of AID is strongly encouraged to consider taking significant portions of the cuts from government-to-government programs. With limited U.S. assistance dollars, the Committee believes that assistance channeled through private, nongovernmental programs is more effective and can better reach the poor.
>
> In promoting participatory economic development, AID should focus its resources on private programs which avoid overburdened and sometimes inefficient bureaucracies. There are a multitude of nongovernmental channels, such as U.S. and indigenous PVOs, cooperatives, foundations, and others, which can provide technical assistance and loans directly to small farmers and small business especially in the informal economy.

> U.S. and host country private organizations of all types have the capacity to expand employment-generating, self-help, and people-to-people style development which truly builds lasting friendships for the American people. The Committee firmly believes that this is the approach to foreign aid which the public is more willing to support.

In 1974 when the foreign assistance legislation was redrafted, Congress included the nonprofit private sector in the new focus on meeting "basic human needs." In 1978, Congress provided further evidence of support for private nonprofit organizations and cooperatives with the addition of Section 123 to the Foreign Assistance Act of 1961. This section contains the basic mandate that the U.S. government work closely with private organizations in its overseas development efforts.

We believe that a new Private-Public partnership in foreign assistance should be expanded and that Section 123 needs to be updated.

In recognition of this new partnership, we suggest that the Committee direct AID to provide significantly increased resources through these private non-profit channels, which have proven to be efficient and effective in assistance activities having a sustainable and lasting impact on the poor. Additionally, the Committee may want to encourage AID to develop regular mechanisms for consultation and to provide support to enhance the organizational capacities of U.S. private voluntary organizations and cooperatives.

In our opinion, we think it is time to strengthen the legislative mandate to the U.S. Agency for International Development for development education and to work closely with private voluntary organizations to educate the American public on development issues. Such provision in Section 123 would place into the Foreign Assistance Act existing authority contained in the 1980 Security and Economic Cooperative Act, known as the "Biden-Pell Amendment" and referenced in Section 103.

It is also appropriate for Congress to recognize the key role of private indigenous organizations and cooperatives in the implementation of self-help economic assistance programs.

We also support the need for a specific mandate for AID to work with private voluntary organizations in U.S. government local currency programs overseas. This would build on earlier legislative intent for the greater use of local currencies by private organizations in the Caribbean Basin Initiative. It would complement recent legislation passed in the 1985 Food Security Act (Section 108 local currency) creating a program for private development activities under Public Law 480, Food for Peace.

Further, we support specific language to Section 123 which would direct that not less than $20,000,000 for each fiscal year 1988 and 1989 shall be provided to initiate, support, expand and enhance non-emergency programs of Title II of Food for Peace (PL 480) and Section 416.

Noting the important role of private voluntary organizations in maintaining and restoring the resource base in developing countries, we urge the Committee to include language in this year's authorization bill to support PVO programs for sustainable, environmentally-sound agricultural development. Such a provision would specifically relate to the efforts by these private organizations in fighting desertification in sub-Saharan Africa, Haiti and elsewhere.

We also propose that the Committee adopt legislation to create a small loan facility in AID for providing grants to private U.S. organizations working in small business developments, micro-enterprises, and credit programs to indigenous community groups. This provision would provide a single location within AID for supporting innovative credit programs by

private organizations to reach the poor in developing countries. It builds on successful private sector programs for the creation of credit unions, revolving funds, and specialized banks for the poor.

Finally, we also strongly support the current legislative minimum for total development assistance funding dedicated to programs by private voluntary organization. We believe that this floor should be increased from 13.5 to 15 percent, and the target, from 16 to 25 percent over the next four fiscal years. We also suggest revising the current formula to encourage the greater use of private organizations in development projects of Economic Support Fund through including all "projectized" ESF projects within the funding formula and that amount channelled through private voluntary organizations in reaching the 15 percent floor and 25 percent target. The increased floor is intended to reverse recent declines in AID funding through PVOs, yet the floor is still less than current PVO levels requested in FY 1988.

Finally, in law, there are two "privateness" provisions contained in current authorization and appropriations acts. Our proposal merely clarifies existing law and combines legislative report language in a single formula.

Amendments to Section 123 of the Foreign Assistance Act

Endorsements

InterAction member organizations:

Africare
Association of Near East Refugee Aid (ANERA)
American ORT Federation
Breakthrough Foundation
Brother's Brother Foundation
CARE
Paul Carlson Medical Program
Children's Survival Fund
Concern America
Direct Relief International
Experiment in International Living
Food for the Hungry
Foster Parents Plan
Foundation for International Community Assistance (FINCA)
Foundation for Peoples of the South Pacific
Global Water
Grassroots International
Helen Keller International
Hermandad
Interchurch Medical Assistance
International Eye Foundation
Mercy Corps International
OEF International
Operation California
Pan American Development Foundation
Pathfinder Fund
Pax World Foundation
Planned Parenthood of NYC, Inc.
Planning Assistance
Save the Children Federation
Sister Cities International
Surgical Aid to Children of the World
U.S. Committee for Refugees (ACNS)
World Relief Corporation
World Vision Relief Organization

Young Men's Christian Association (YMCA) of the USA/International Division
Young Women's Christian Association (YWCA) of the USA

Cooperatives:

Agricultural Cooperative Development International
Blue Ridge EMC
CENEX
Cooperative Housing Foundation
Credit Union National Association
Farm Credit Service of St. Paul
Land O-Lakes
League Insurance Companies
US Overseas Cooperative Development Committee
National Cooperative Business Association
National Council of Farmers Cooperatives
National Farmers Unions
National Rural Electric Cooperatives
Nationwide Mutual Insurance Companies
Texas Electric Cooperatives
Volunteers in Overseas Cooperative Assistance
Washington State Council of Farmer Cooperatives

Other organizations:

Alan Guttmacher Institute
Columbia University School of Public Health
Family Health International
National Resource Defense Council
Population Crisis Committee
Sierra Club
Zero Population Growth

PREPARED STATEMENT OF ROBERT A. BASIL

My name is Robert Basil, President of the American Lebanese League, a nationwide non-profit organization founded by American citizens in 1976 to promote United States-Lebanon relations and to foster the sovereignty, security, democracy and independence of Lebanon within the bounds of the U.S. national interest.

We are not a lobbying organization but an educational, humanitarian and social organization with a broad national membership base representing the philosophy and ideals of the two and one-half million Americans of Lebanese descent.

Today I would like to discuss briefly the immediate threat to Lebanon's survival as a sovereign nation, and the major U.S. policy and foreign aid actions that should be considered to achieve U.S. strategic and regional objectives, while saving the

Lebanese democracy and aleviating the suffering of the Lebanese people.

Three days ago, Syria started the next-to-final phase of its long-held dream of hegemony over Lebanon. Seven thousand Syrian troops, backed by Soviet-furnished tanks, entered West Beirut to stop the intense and bloody conflict between warring militias, and to establish control and order. Despite serious concerns over Syria's ultimate objectives in Lebanon, this massive military entry has been given guarded support from most people and nations, including the U.S. The exhausted people of West Beirut hope the uncontrolled militia battles will stop, the beleaguered Palestinian civilians in the refugee camps hope the Shiite Amal seige will cease, the U.S. and Western Europe hope Syria will remove the terrorist camps and free the hostages, the Israelis hope Syria will contain and eliminate armed PLO strength in Lebanon, and most nations hope Syria will disarm all militias and support central government control over a chaos-ridden country.

There appears to be little concern that Syria expects de facto control over the Lebanese government and institutions, essentially destroying its freedom. Most nations appear to be considering the idea that maintaining a free, sovereign, democratic, pluralistic Lebanon has simply cost too great a price in regional instability and international terrorism.

The truth is that Syria, over the past eleven years, has cynically created all these problems in Lebanon, and then postured itself to be the only salvation against the very problems it created. In the early 1970's massive Syrian arms shipments created the armed PLO and Saiqa armies which attacked and threatened to destroy Lebanon, only to have Syria intervene to defeat its own creations and perpetuate their major military presence. Since then, Syria has armed the Leftist PPS Militia, the Druze militia, the Shiite Amal militia, encouraged all to undermine the central Lebanese government, and to fight each other. Syria has alternatively backed the Druze against the Christians in the Chouf, the Alouites against the Sunni Moslems in Tripoli, the Shiite Amal against the Druze and Palestinians, and ensured that West Beirut became the most vicious five (5) square miles on earth.

Syria has been the kingpin of terrorism. The convictions of Syrian agents in London and Germany, the permitting of major terrorist bases in Syrian controlled territory in Lebanon, and its involvement in major anti-US and anti-West terrorist actions resulted in both houses of Congress writing letters to President Reagan just three and a half months ago demanding sanctions against Syria for its leadership in international terrorism (submitted for the record).

If Syria's intentions are to control Lebanon's sovereignty, the final step will be executed after its consolidation of West Beirut. We can then expect that the Christian areas of East Beirut and the mountains, the last remaining stable areas of Lebanon not under foreign control, will be de-stabilized by a campaign of car bombings and armed military action orchestrated by Syria. This will result in Syria once again raising the pretext of imposing stability in order to invade and take control of the last areas of free Lebanon.

What are Syria's intentions today? Is this yet another chapter in illegality? Syria has never recognized Lebanon's sovereignty, having entered Lebanon illegally in 1976, and remaining illegally despite requests by Lebanon to leave, and has now entered West Beirut in force without request or approval of the government of Lebanon.

What is Syria's price today for imposing stability in West Beirut and in terrorist camps? In December 1985, just fourteen months ago, Syria's price as negotiated in the now-defunct Damascus Agreement required Lebanon to place its foreign policy, domestic policy, education, army and other key institutions under

Syrian control, and to essentially re-educate the Lebanese to the Syrian way of life. (Summary entered in the record).

Syria's determination to crush the Lebanese economy and the Lebanese will-to-resist has resulted in the stagnation of the country's once-model economic system, the devaluation of the Lebanese currency from four (4) to one-hundred (100) pounds per US dollar, and the spectre of numerous families being unable to afford food and the basic necessities of life.

The next few weeks will determine Syria's intentions, and, hopefully the US response. Should Syria unexpectedly decide to abandon its decades-old goal of incorporating Lebanon into Greater Syria, and decides instead to play a more constructive role in the region and in Lebanon, the US should carefully support and encourage this process. Necessary Syrian actions must be full support of the central government of Lebanon without any foreign demands or control, and phased withdrawal of its forces. If on the other hand Syria decides to set the stage to occupy the Christian areas, the last regions of resistance to full Syrian control, the US and Western Europe must find this action unacceptable. To exercise this alternative, Syria would stimulate instability and agony in the Christian areas, and then manipulate and exploit demands by the various political leaders that are now under the expanded Syrian occupation to complete the takeover.

ALL strongly recommends the following actions:

1. The US should state its full support for a free democratic, soverign Lebanon, and its duly-constituted government.

2. The US should condemn the illegality of the major deployment of Syrian troops into West Beirut, and state its strong opposition to any wider deployment of the Syrian army into other areas, especially East Beirut.

3. The US should request Syria to stop its activities of creating political and economic chaos in Lebanon, and permitting terrorist bases and actions in areas under Syrian control.

4. The US should give major humanitarian aid to Lebanon's suffering population, including medicine, food, physical and psychological rehabilitation.

5. The US should forgive the $100 million Lebanon owes on the purchase of military equipment so that these funds can be used to help the people.

The US would commit a serious error if we hope that Syria will moderate its behavior or prevent all future acts of terrorism from Lebanon on the condition we acquiesced and passively permitted Syria the ultimate excess of capturing Lebanon's sovereignty. The notion of feeding the carnivore a free people in the hope of quelling his destructive behavior is always illusory.

As the great American patriot Patrick Henry implored his Virginia colleagues who were considering giving up their freedom for the sake of peace and stability:

"It is natural for man to indulge in the illusion of hope. We are apt to shut our eyes against a painful truth, and listen to the song of that siren till she transforms us into beasts ... The gentlemen may cry, peace, peace! but there is no peace ... What is it that the gentlemen wish? What would they have? Is life so dear or peace so sweet as to be purchased at the price of chains and slavery?"

Mr. Chairman, is the life of a hostage so dear, or accomodations with Syria so sweet, as to be purchased at the price of chains and slavery for Lebanon?

Thank you, Mr. Chairman.

PREPARED STATEMENT OF KENNETH H. SHAPIRO

The United States cannot develop Africa or any other poor region of the world. We can help Africans and others help themselves. The majority of the world's poor rely on agriculture for their livelihood, and their governments rely on agriculture for revenue. To help themselves, developing countries need new agricultural technologies to raise productivity, they need improved systems to transfer technologies to farmers, and they need public policies that encourage farmers to produce more. The United States can help poor countries help themselves by working with them to strengthen national agricultural research systems, to strengthen technology transfer systems, to strengthen public policy institutions, and to strengthen institutions of higher education that will train personnel to staff those institutions.

These issues are discussed in the following four sections of this testimony:

I. Development Strategies.--an analysis of the role of agriculture in economic development and of the importance of institutions of higher education, research, technology transfer, and policy analysis in moving agriculture ahead;

II. The AID Budget.--an assessment of the declining support in USAID's budget for strengthening agricultural institutions and research;

III. Africa's Special Needs.--a discussion of the particularly great needs that Africa has for help in strengthening its agricultural institutions and developing the human resources to staff them;

IV. Recommendations.--a proposal to target U.S. foreign assistance directly at these institution-strengthening needs.

I. DEVELOPMENT STRATEGIES

The main points of this section are as follows:

(a) Assistance to agriculture can directly affect more people and more potential for economic growth than can assistance to any other sector in poor countries;

(b) Agricultural development is the only way to sustain the short-term benefits from donor programs in nutrition, health, and child survival; it is the key to raising family incomes to the level at which family planning programs may become effective; and it is the only way most poor countries can generate the economic base to support such programs themselves;

(c) Sustained agricultural development will require donor support to strengthen national institutions of agricultural research, technology transfer, and public policy, as well as institutions of higher education to develop the human resources to staff these institutions.

A. Agriculture is the Dominant Sector in Developing Countries

Agriculture is the dominant sector in most developing nations. It typically provides more jobs, generates more income, and earns more foreign exchange than any other sector in the Third World. The overwhelming importance of agriculture is most extreme in the poorest countries, including most of sub-Saharan Africa. Because of agriculture's dominance, development assistance aimed at agriculture can directly affect the largest segments of the population and the greatest potentials for economic growth.

B. Agricultural Development is Critical to Improvements in Health, Nutrition, and Family Planning

In addition to the direct benefits of higher income and more food, agricultural development also has major indirect benefits for other sectors and programs. Higher incomes and greater food availability are obviously the only way to sustain the short-term effects of child survival and nutrition programs. As Bruce Johnston[1] and John Mellor[2] [1984, p. 567] note, "nutritional inadequacies seem inseparable from broader issues of poverty," and, they continue, sustained nutritional improvements require accelerated agricultural growth and an employment-oriented development strategy. Furthermore, agricultural development may be the only means of generating enough government revenue to allow LDCs to take over health and nutrition programs themselves rather than always relying on development assistance. Carl Eicher[3] and John Staatz[4] [1984, p.21] state that:

> Although investment in health, nutrition, education, and housing can contribute importantly to the welfare of the poor and to the rate of economic growth, the experience of the basic needs approach suggests that low-income countries also need to emphasize building the economic base to finance these investments.

And, of course, that "economic base" can only be derived from agriculture in most poor countries.

Agricultural development is also intimately related to slower population growth. The leading factor associated with decreased fertility throughout history has been increased personal income. As incomes rise, families can improve their nutrition, child survival increases, and new opportunities arise for spending income. These and related factors decrease the need and desire for large families.

In summary, development efforts focused on agriculture can directly affect the major LDC population groups and sources of income, but in addition, agricultural development is essential for sustained improvements in nutrition and health and for slowing population growth. This leads to the critical question: What are the key elements of development assistance for agriculture?

C. Institution Strengthening is Critical to Agricultural Development

Based on a review of development experiences and research, Eicher and Staatz [1984, p. 22] conclude that four components must be emphasized in agricultural development, the first of which is[5,6]

> strengthening of institutions in low-income countries for agricultural research, administration, policy analysis, and training;

and they stress that this requires

> "expansion of the human capital base of Third World Countries."

Eicher and Staatz [Ibid] expand their discussion of institution-strengthening as follows:

> One of the clearest lessons of the 1960's and 1970's is that agricultural and rural development require strong local institutions and well-trained individuals. International research centers and expatriate advisers are at best complements to, not substitutes for, domestic research systems and policy analysts.

In a forthcoming monograph, Bruce Johnston sounds a similar theme when he lists eight priorities for AID development assistance. The first priority listed is development of national agricultural research systems. The second is investment in human capital and institutions of higher learning to support agricultural research, policy analysis, and management.

The conclusions of these analysts are wholly consistent with two of the four[7] basic programmatic components in The Strategic Plan of the Agency for International Development (p. iv):

Institutional Development and Training

Technology: Research, Development, and Transfer.

The AID Policy Paper on Food and Agricultural Development (1982, pp. 4,5) elaborates on these basic components:

> Particularly vital to the establishment of self-reliant, sustainable food and agricultural systems are national institutions that give a country the capacity (1) to generate and apply a continuing stream of innovations designed to increase agricultural productivity and incomes; and (2) to evaluate and adapt technologies transferred from developed countries and international institutions.
>
> A.I.D. will therefore give special emphasis with a sufficiently long-term commitment, to helping countries develop the institutional capacity for food and agricultural planning and policy analysis; basic and adaptive research, education and training; and disseminating improved technology and related information in a cost-effective manner.

As AID states, an assistance program aimed at these priority areas must have a long time-frame. Eicher [1984, pp. 25, 29] considers 15 years as the minimum planning horizon for Africa, and he cautions that, "unless donors shift their emphasis from short-run to long-run strategic responses to deep seated problems such as the development of indigenous scientific capacity, aid will not achieve its potential." Similarly, a recent OTA report on the Sahel [1986, p.9] is critical of AID programs because they are "often directed toward short-term physical objectives rather than longer-term development goals."

D. Agricultural Development Requires Appropriate Policies

Appropriate economic, fiscal, monetary and other policies are needed to provide incentives for farmers, to stimulate investment in agriculture and related industries, and to maintain a suitable international trade position. Policy issues are addressed by the International Monetary Fund, the World Bank, and AID. The common strategy has been to use promises of more loans and other capital transfers as a "carrot" to induce policy reform and "structural adjustment."

AID has encouraged "policy dialogue," backed by smaller carrots then used by the IMF or World Bank. Given limited AID resources, the long-term effects of this leverage strategy are open to question. Indeed, the AID strategy may be counterproductive. When funds are used for these capital transfers, less money and attention are devoted to helping countries develop the indigenous institutional capability to improve their policies. AID can be more helpful by training more policy analysts, by improving the data collection systems that provide the information needed for analysis, and by strengthening the national institutions that have responsibility for data collection and policy analysis.

E. SUMMARY

Agriculture is the key to economic development in most of the world's poor countries. Advances in agriculture will directly help millions of families improve their incomes and diets. Without such agricultural advances, expenditures for emergency nutrition programs, health and child survival, and population planning are unlikely to bear fruit or be sustainable.

United States foreign assistance should concentrate on helping others help themselves. This means working with poor countries to help them strengthen the following four kinds of agricultural institutions:

1. Agricultural universities and colleges that can provide the number, kind, and quality of agriculturalists that are essential to faster agricultural development;
2. National agricultural research systems fully capable of providing least-cost, output-increasing production, processing, and distribution technologies;
3. Technology transfer systems for reaching farmers with a continuous flow of improved, adoptable technology and associated information; and
4. Governmental agencies that collect needed data and conduct policy analysis to offer decision-makers the information they require to develop policies that give farmers adequate incentives.

The United States has a comparative advantage in providing foreign aid that responds to the above points. We are the world leader in agricultural research and training, and we have a proud tradition of using these skills to help developing countries. The Title XII legislation is a mandate for USAID and the university community to carry this tradition into the future.

II. THE AID BUDGET

The main points of this section are as follows:

(a) AID funding for agriculture has declined sharply since 1984;

(b) AID funding for new institution-strengthening projects has declined sharply since 1985; and

(c) AID funding for agricultural research has declined sharply since 1985.

All the above are declines both in dollars and in percentages of the total budget. In other words, the U.S. foreign assistance program has been dramatically turning away from the priorities discussed in the previous section.

A. AID Funding for Agriculture is Declining

Most of the AID Development Assistance budget is allocated among "functional accounts" that include (1) Agriculture, Rural Development, and Nutrition (ARDN), (2) Population Planning, (3) Health, (4) Child Survival, (5) Education, and others. The Agriculture (ARDN) account has declined sharply as a percentage of all functional accounts and in dollars. From 1977 to 1984 Agriculture was consistently between 53% and 56% of the total. After FY 1984 it started dropping significantly. By FY 1987 it had fallen to 43%. In the Agency's FY 1988 request it seems to have fallen below 40%.[8] In 1984, Congress allocated $723 million to AID's Agriculture account. In 1987, only $640 million were allocated to Agriculture. Thus, contrary to the needs of developing countries, the AID budget allocation to agriculture has fallen dramatically both absolutely and in percentage terms.

B. AID Funding to Strengthen Institutions is Declining

While data on this are not easy to obtain, a disturbing pattern can be seen. There appears to be a reversal of an earlier trend to expand funding for all institution-strengthening projects. Between 1980 and 1985 there was an increase in AID obligations to such projects. In contrast, funding for new agricultural institution-strengthening projects from FY 1985 to FY 1988 is scheduled to decline in both absolute and percentage terms. (See Appendix) Also, projected expenditures do not reflect the Agency's recently stated objective of building faculties of agriculture in Africa. Thus the trend of new project funding is not consistent with AID's policy of strengthening institutions in developing nations.

C. AID Funding for Agricultural Research is Declining

The Bureau of Science and Technology (S&T) funds short- and long-term research programs and technical assistance to missions in agriculture, fisheries, forestry, and natural resources. The S&T Office of Agriculture supports AID's principle thrust in research, utilizing Title XII and other universities, the U.S. Department of Agriculture, other government agencies, and the private sector.

Included in these activities are 8 Collaborative Research Support Programs (CRSPs), which involve 38 U.S. universities and other institutions working with 63 institutions in 32 countries. Each federal dollar is matched 25% by state dollars. The main focus of the CRSPs is research, but, in addition, they make a significant contribution to strengthening national research institutions through collaborative programs in participating countries. In fact, the "Guidelines for the Collaborative Research Support Programs" (1983, p.7) state that:

> The intent is not only to find solutions to constraints through research, but to also simultaneously develop greater research institutional capability in the developing countries where CRSP activities are located.

Funding for the CRSPs has been cut by over 30% in the last two years. (18% in FY 86 and 13.5% in FY 87) CRSP activities in several countries have had to be terminated. New opportunities and initiatives (e.g., biotechnology) are impossible. Unfortunately, cuts in the CRSP budgets reflect cuts to the whole Bureau of Science and Technology. In FY 1987 AID cut the Bureau of Science and Technology by 14% and it cut S&T/Agriculture by 20%.

D. Summary

The above analysis reveals a striking pattern of declining assistance to the priority activities that will help other countries help themselves. Some of this is of course the result of general budgetary stringency in the United States. However, the above analysis shows that the priority areas of agriculture, institution-building, and research have been cut disproportionately more than the rest of the AID budget.

III. AFRICA'S SPECIAL NEEDS

For almost twenty years, African weather has been dominated by repeated, prolonged periods of drought that have been the major cause of that continent's deteriorating food situation.[9,10] The good rains in 1986/87 and the consequent, relatively good harvests underscore the fact that it was bad weather far more than any other factor that caused the major food deficits. However, one good year does not signal the end of the drought period. Furthermore, even with good rains, African agricultural productivity lags well behind that in Asia or Latin America, and total output will not be sufficient to feed the continent. The key problem is a lack of suitable, new agricultural technologies.

At present there is a striking paucity of new technologies available for improving African agriculture. The staple food crops on which millions of Africans rely have not benefited from major scientific breakthroughs. The yield increases that characterize the green revolution in Asia are concentrated mainly on rice and wheat, two crops that are not widespread in Africa. Reporting on a recent conference of African agriculturalists and World Bank officials, the New York Times [January 7, 1987] summed up the situation as follows:

> Virtually no major advances in agricultural research have been made on the continent since 20 years ago when new corn hybrids were adopted in eastern and southern Africa.

The long-term solution to Africa's food problem is development of new agricultural technologies. The means of reaching that solution is the development and strengthening of research and educational institutions that can produce a continuing stream of such new, improved, appropriate technologies for African agriculture. Along with these, there must be developed better institutions for technology transfer and policy analysis. In other words, Africa needs the same four types of agricultural institutions that are discussed in the first section of this testimony. However, Africa's needs are far greater than those in other parts of the world.

This section points out Africa's special needs by highlighting the following:

(a) There have been almost no significant improvements in the staple food crops that feed Africa's poorest populations;

(b) The few crop improvements that have occurred, mainly in maize, demonstrate the need for very long-term commitments (15 to 20 years) by research staff and funding agencies;

(c) The scientific personnel situation in Africa today is worse than it was in Asia and Latin America 10 to 20 years ago.

A. Limited Technological Advances

Millet and sorghum are by far the dominant food crops throughout the West African semi-arid tropics, and they are also important in the Sudan and parts of southern Africa. There have been almost no significant improvements in sorghum and millet varieties for Africa. In 1975 the International Crop Research Institute for the Semi-Arid Tropics (ICRISAT) launched its West African sorghum and millet program. Ten years later ICRISAT researchers report that "probably less than 2% of total sorghum and millet...in West Africa is sown to cultivars developed through modern genetic research." (Matlon and Spencer, p. 674). Neither the varieties imported by ICRISAT from India nor the new ones developed in West Africa proved superior to traditional varieties grown by the area's farmers.

In the drier parts of Africa, millions of the poorest people rely heavily on cattle for their livelihood. Despite a long history of livestock development projects financed by the U.S. Agency for International Development and the World Bank, and ten years of research by the International Livestock Center for Africa, there are no significant new technologies to offer Africa's pastoralists. Many of the development projects attempted to transplant U.S. grazing management strategies, which proved inappropriate for local conditions. With regard to research programs, the lack of results is not too surprising because 10 years is a short time for research on animals that have 15-year lifespans.

In the wetter parts of Africa the situation is not much better, but there are some brighter spots. One very important point to keep in mind is that irrigated rice and wheat are of almost no importance in Africa. These are the two major successes of the green revolution in Asia, but they have almost no applicability to Africa. Wheat and irrigated rice can be grown in only very small areas. Unirrigated or upland rice is important in some parts of West Africa, but the International Rice Research Institute (IRRI) and the West African Rice Development Association (WARDA) have not had major successes with this crop. WARDA is said to have screened 2000 improved varieties of upland rice over seven years and found only two that are superior to local varieties (Delgado and Mellor, p. 666).

B. Some Successes and Their Lessons

There has been some encouraging work on cassava, an important root crop. The brightest spots are the improvements of maize in Zimbabwe and Kenya. The Zimbabwe developments were the result of a research program that began in 1932 in then Southern Rhodesia. That program was nurtured by the same individual for 30 years. In 1949 the first hybrid was released, and it was not until 1960 that major breakthroughs in yield were finally achieved, after 28 years of research. (Eicher, pp. 9,10). In Kenya ten years of research led by the same individual resulted in a significantly better variety that in subsequent years was improved further and adapted to specific locations. (Eicher, pp. 10,11).

These two maize success stories have several important lessons. First, they offer a basis for hope. Although the current situation is discouraging, concerted efforts may bear fruit. Second, the maize successes emphasize the long time periods that are often necessary before significant research results can be achieved. Research takes time. Third, these successes indicate the importance of continuity of personnel. Both programs benefited from a long-term commitment by key researchers. This is in notable contrast to the two-year tours that characterize most technical assistance programs. The implications for U.S. assistance seem clear. First, we must make a long-term commitment to agricultural research. Fifteen years would seem to be the minimum duration to consider. Second, we must help develop the scientific manpower that will staff these research institutions over the long haul. Africa cannot rely on expatriate advisors who, for the most part, cannot be recruited for long enough periods to build enduring research programs. The Africans must do this themselves. But to do so they must have appropriate training. Unfortunately, as is discussed next, Africa has a very small pool of trained researchers and a very small number of students who can be expected to augment that pool in the near future.

C. Limited Scientific Personnel and Education

The scientific personnel situation in Africa today is worse than it was in Asia and Latin America 10 and 20 years ago. The appendix figures show the dramatic discrepancies between Africa and the other two developing regions of the world. UNESCO estimates that the number of research and development scientists and engineers per million inhabitants in Africa was 29 in 1970 and 52 in 1980. The comparable figures for Asia are 225 and 284, and for Latin America they are 136 and 253. In other words, Africa in 1980 had only one fourth the relative scientific strength that Asia had ten years earlier.

The education statistics do not hold out much hope that Africa will rapidly remedy this situation. The enrollment ratios[11] for secondary and university education in Africa in 1980 were lower than most such ratios for Asia and Latin America in 1960, 20 years earlier. In 1980 only 2.7% of Africa's university age population was enrolled in universities.[12] In contrast, 20 years earlier, in 1960, 2.9% of Asia's and 3.0% of Latin America's university age population were enrolled. By 1980 the Asian ratio was 8.1 and the Latin American 14.3. At the secondary school level, the African enrollment ratio in 1980 was 16.7%, while the Asian and Latin American ratios in 1960 were 20.5% and 14.3%, respectively. By 1980 the Asian ratio was 34.6% while the Latin American ratio was 44.2%.

D. Building Agricultural Institutions

As the above discussion shows, Africa today is, at best, where Asia and Latin America were 20 years ago in terms of scientific personnel and training. Over the past 20 to 25 years both Asia and Latin America benefited from major, long-term institution-building programs funded by the United States and other donors. For example, 9 land grant universities worked with Brazilian universities and the Brazilian agricultural research council (EMBRAPA) over a 13-year period.[13] Similarly, Wisconsin, Kentucky, and Washington have been working with Indonesian universities for over 20 years. In India the U.S. helped develop 9 agricultural universities in a program that extended from 1955 to 1972 and involved 6 U.S. land grant schools.[14] In the Philippines, Cornell helped to develop that country's leading agricultural university in a long-term program that spanned 20 years.

The United States can be proud of its accomplishments in these institution-building programs. Twenty-five years ago we saw clearly that developing nations needed large amounts of long-term assistance to expand their agricultural institutions. At the start of that period most of Africa was still under colonial rule, and so our attention was focused on Asia and Latin America. We now find that Africa today is where those other regions were 20 years ago. By intensifying our long-term institution-building programs in Africa, the United States can make a major contribution to that continent's development.

IV. RECOMMENDATIONS

A. Strengthening Agricultural Institutions of Higher Education, Research, Technology Transfer, and Policy Analysis

The United States foreign assistance program must rededicate itself to the long-term effort of helping others help themselves. While short-term, emergency, and welfare-type programs may be needed from time to time, they cannot be allowed to divert us from the main, long-term effort of strengthening agricultural institutions that will allow Africans, Asians, and Latin Americans to train their own skilled personnel, to develop new technologies suited to their own environments, to transfer those technologies to their farming citizenry, and to design and implement policies that give their rural majority a fair return and encourage greater productivity. Therefore, the number one priority for United States foreign assistance should be to help developing countries strengthen their:

1. Agricultural universities and colleges;
2. National agricultural research systems;
3. Technology transfer systems; and
4. Public policy institutions.

B. A Special Effort to Strengthen African Agricultural Institutions

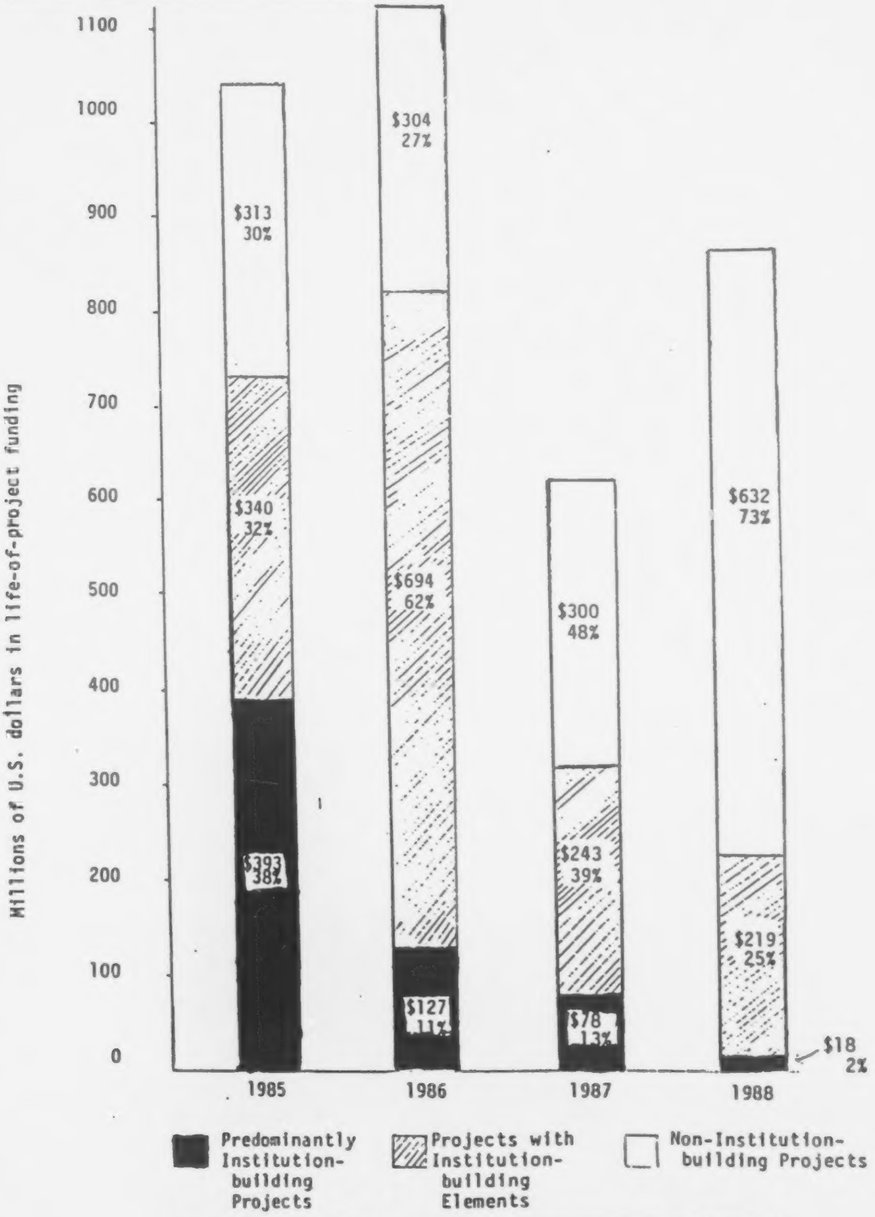
The need is especially great in Africa where the United States and other donors have not made a concerted, prolonged effort to strengthen these institutions. Africa has had to rely for too long on transient expatriate advisors who may bring high levels of skill and commitment, but who cannot substitute for the long-run efforts of Africans working in their own countries for their own citizens. The contrast to Asia and Latin America is striking both in terms of the early prolonged efforts by the United States to strengthen agricultural institutions in those regions and, now, the ability of many of those countries to work with us as fully contributing partners in continuing development programs.

C. Continuing Links to Institutions That Have Been Strengthened

Where our efforts have been successful in strengthening agricultural institutions, primarily in Asia and Latin America, we should not sever our connections. These strong but young institutions can still benefit from partnership with the U.S. universities that helped them grow, and the U.S. can benefit by maintaining the resultant close, positive nation-to-nation relationship's that were fostered. A modest program of continuing links between U.S. universities and the LDC institutions with which they had previously worked intensively would cost very little but would yield large benefits.

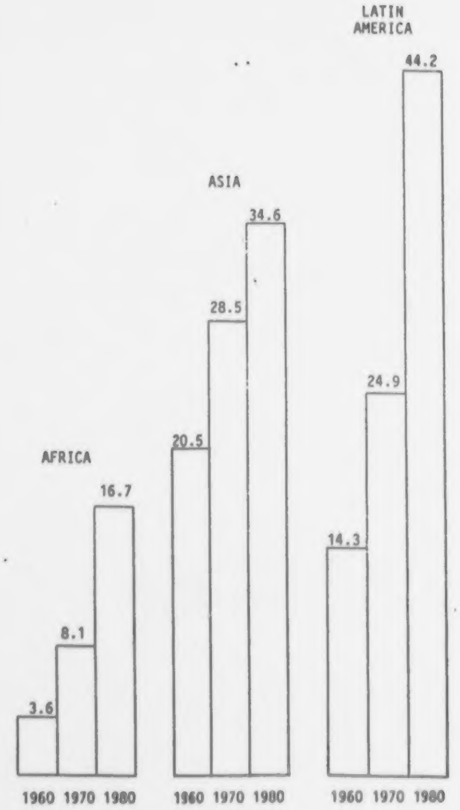
D. Fully Funding Collaborative Research Support Programs

Finally, the continued success of Collaborative Research Support Programs must be assured. The CRSPs have proven themselves in a very short time. They have yielded technological advances both for developing countries and the United States. Furthermore, they function in a collaborative mode, helping to strengthen LDC national research capabilities while simultaneously making scientific advances. These programs have already been severely cut back, and further cuts could destroy them. Funds should be allocated to fully restore the CRSP budgets to their original levels, and new funds should be made available to initiate needed new CRSPs.



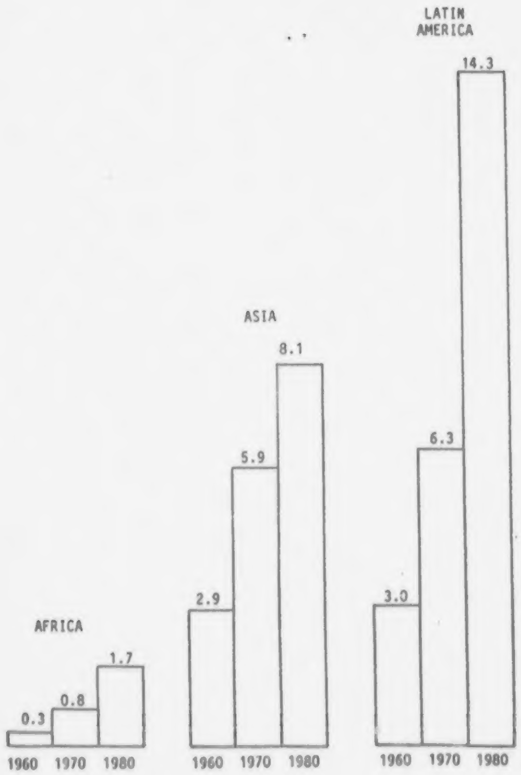
GRAPHIC REPRESENTATION OF INSTITUTION-BUILDING PROJECTS AS A PERCENT OF ALL PROPOSED NEW AGRICULTURAL PROJECTS, 1985-1988

Enrollment Ratios for Secondary Education



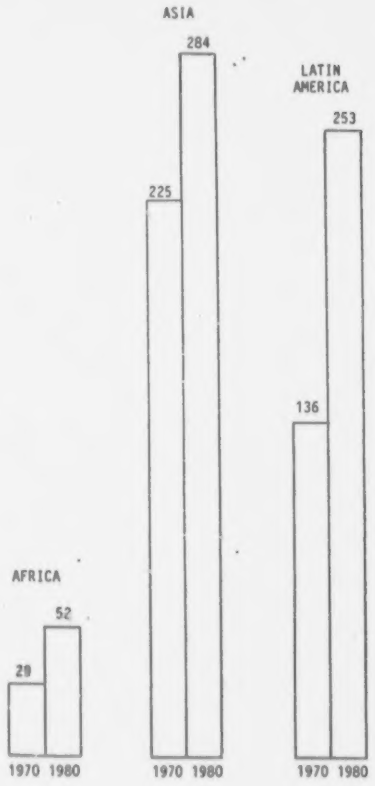
Source: UNESCO Statistical Yearbook, 1982

Enrollment Ratios for Higher Education



Source: UNESCO Statistical Yearbook, 1982

Research and Development Scientists and Engineers Per Million Population



Source: UNESCO Statistical Yearbook, 1984

AFRICANS PIN HOPE ON FARM RESEARCH
Agriculture Is Seen as a Key to Rebound of Continent

By SHEILA RULE

Special to The New York Times

NAIROBI, Kenya, Jan. 6 — African officials and the World Bank, in an effort to reverse a 25-year trend that has seen Africa go from being a net exporter to a net importer of agricultural products, are pinning their hopes for future economic development on agricultural research.

There have been two major famines on the continent in the last 12 years, and much of Africa's uncultivated land is marginal at best. The World Bank says that the average African farmer is poorer now than he was 20 years ago and that most farming remains at elementary subsistence levels.

Meanwhile, it is estimated that the continent's population is increasing at the rate of 3 percent each year, faster than any other region in the world.

To deal with those trends, says Thomas R. Odhiambo, director of the International Center of Insect Physiology and Ecology in Nairobi: "What we are trying to do is see how to move Africa out of its present problems in agriculture. We believe an extremely important part of that is to strategically use agricultural research as a motor or engine for that development."

Mr. Odhiambo was a participant at recent workshops sponsored by the World Bank in Kenya and in Benin at which research directors and scientists, along with World Bank officials, began searching for long-term strategies to finance agricultural research.

They also focused on ways promote university-level education in the field and strengthen existing national research units.

Scientists say that in Africa, there has been a gradual realization that in order to start developing African agriculture again, research must be not only dramatically strengthened but also moved from a regional approach to a national emphasis.

Research efforts have customarily faced an array of problems, researchers say, including often piecemeal, uncoordinated aid from international donors, lack of financial support from governments, poor government research policies and weak management.

One World Bank official also said that Africa had only about 2,500 agricultural researchers, when it needed about 25,000.

The official said that much as 90 percent of some African countries' budgets for agricultural study and investigation went to pay salaries.

African officials say new research efforts must be accompanied by both policy changes to provide incentives to farmers and greater investments in agriculture production.

Financial aid has been provided for agricultural research in sub-Saharan Africa, much of it from international donors, and there have been a few advances. Among the advances have been the development of a hybrid coffee in the Ivory Coast and a technique in Nigeria to ease soil erosion.

But World Bank officials say that the donors have also determined the research policies, often with little participation from the African nations they have sought to help.

Virtually no major advances in agricultural research have been made on the continent since 20 years ago, when new corn hybrids were adopted in eastern and southern Africa. There have been no significant genetic improvements in the quality of sorghum or millet, two crops that account for up to 80 percent of the cultivated land in the sub-Saharan region.

Mr. Odhiambo said African leaders now had the political will to support agricultural advances, citing a commitment made by the Organization of African Unity in 1985 to devote 20 to 25 percent of national budgets to agriculture by 1989. But many African countries lack the money and other resources to support national research programs.

"The concern now is not whether or not there is political will at the helm-of-state level," Mr. Odhiambo said, "but rather the means to sustain this commitment and the translation of this commitment to strategies that would lead to a transformation of African agriculture and to achieve sustainable productivity."

FOOTNOTES

[1] Bruce Johnston of Stanford University is one of the leading experts on economic development strategies, with special expertise in Asia and Africa.

[2] John Mellor is the Director General of the International Food Policy Research Institute, part of the CGIAR system.

[3] Carl Eicher is considered by many as the leading analyst of African agricultural development.

[4] John Staatz is an Assistant Professor at Michigan State University.

[5] The other three deal with the importance of macroeconomic considerations, international trade, and interdisciplinary approaches to solving problems.

[6] Emphasis added.

[7] The other two are "policy dialogue" and "reliance on the private sector and market forces."

[8] This takes into account the proposed African Development Fund, although this complicates the comparison with earlier years.

[9] "From the perspective of 1985...the sub-Saharan drought of the past 15 years is seen to have been the worst in 150 years, and the past 2 years were the driest of the century," (Kerr, 1985, p. 1453).

[10] "In light of the continent-wide scale of the drought, Nicholson notes, claims that Africans themselves brought on the drought by stripping away vegetation and altering the reflective properties of the land can have no foundation. The drought is simply too big to be man-made," (Kerr, 1985, p. 1454 citing Nicholson, 1983).

[11] Students in school as a percentage of total population in that school age group.

[12] The UNESCO Statistical Yearbook does not specify whether the enrollment ratios include students enrolled out of the country. If not, then all the ratios presented in this section somewhat understate the true situation, but the relative difference between the three regions may not be much different than shown.

[13] The 9 U.S. universities were the University of Arizona, the University of Florida, Michigan State University, Mississippi State University, The Ohio State University, Purdue University, Southern Illinois University, Texas A&M University, and the University of Wisconsin.

[14] The 6 U.S. universities were the University of Illinois, Kansas State University, the University of Missouri, The Ohio State University, Pennsylvania State University, and the University of Tennessee.

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PREPARED STATEMENT OF EDWARD J. DERWINSKI

IT IS A PLEASURE TO APPEAR BEFORE YOU TODAY SO SOON AFTER YOU AND THE COMMITTEE FACILITATED MY CONFIRMATION. AS I HAVE TOLD SOME OF YOU IN OUR INFORMAL MEETINGS, I AM CONVINCED WE HAVE GOT TO WORK CLOSELY TOGETHER, AND SO I PROMISE FULL, CLOSE AND TIMELY CONSULTATION.

THE NEED TO PRODUCE A BIPARTISAN FOREIGN POLICY POSTURE AND BUDGET IS GREATER THAN EVER, AND I LOOK FORWARD TO WORKING WITH THE CONGRESS TOWARD THAT END.

THIS MORNING I WOULD LIKE TO EXPAND UPON THE THEME THAT SECRETARY SHULTZ HAS DISCUSSED WITH YOU OVER THE PAST TWO MONTHS: THE RESOURCES NECESSARY FOR THE CONDUCT OF A COMPETENT AND EFFECTIVE AMERICAN FOREIGN POLICY.

AS A FORMER MEMBER OF CONGRESS, I STILL HAVE A FAIR SENSE OF THE PRIORITIES OF OUR CITIZENS AND I KNOW THAT MOST PROGRAMS IN THE FOREIGN AFFAIRS BUDGET HAVE LITTLE OR NO DOMESTIC CONSTITUENCY. THIS IS PARTLY BECAUSE HISTORICALLY WE THINK OF THESE PROGRAMS AS FOREIGN AID, GIVE-AWAYS TO UNGRATEFUL FOREIGNERS. THOUGH WE OBVIOUSLY DIFFER NOW AND THEN ON THE MERITS OF SPECIFIC PROGRAMS IN SPECIFIC COUNTRIES, WE KNOW THAT THAT IMAGE IS WRONG.

WE KNOW THAT THE PROGRAMS MAKING UP OUR INTERNATIONAL AFFAIRS ACCOUNT REALLY CONSTITUTE OUR FOREIGN POLICY BUDGET -- THE MILITARY, ECONOMIC AND PUBLIC AFFAIRS INSTRUMENTS OF OUR FOREIGN POLICY AND THE PEOPLE, IN THE UNITED STATES AND ABROAD, WHO MANAGE AND IMPLEMENT THAT POLICY.

THAT FOREIGN POLICY BUDGET, UNDER THE PRESIDENT'S PROPOSAL, CONSTITUTES LESS THAN TWO PERCENT OF OUR TOTAL FEDERAL BUDGET.

I WILL FIRST TURN TO A VERY IMPORTANT PIECE OF THE FOREIGN POLICY BUDGET: THE SECURITY ASSISTANCE PROGRAMS. THESE, AS YOU KNOW, AMOUNT TO LESS THAN $10 BILLION, OR ABOUT HALF THE TOTAL INTERNATIONAL AFFAIRS ACCOUNT -- LESS THAN ONE PERCENT OF THE FEDERAL BUDGET.

THE SECURITY ASSISTANCE PROGRAMS CONTAIN SOME $3.5 BILLION IN ECONOMIC ASSISTANCE, I.E., THE ECONOMIC SUPPORT FUND, NEARLY TWO-THIRDS OF WHICH IS ALLOCATED TO JUST TWO COUNTRIES, AND THE REST OF WHICH IS CRITICAL TO SUSTAINING OUR POSITION IN AND RELATIONSHIP WITH COUNTRIES IMPORTANT TO OUR FORWARD DEFENSE POSTURE.

THE ACTUAL MILITARY ASSISTANCE PROGRAMS -- THOSE USED TO EQUIP AND TRAIN THE MILITARY FORCES OF CLOSE FRIENDS AND ALLIES -- CONSTITUTE LESS THAN $6 BILLION, ABOUT A THIRD OF OUR "FOREIGN POLICY BUDGET," TENTHS OF ONE PERCENT OF THE FEDERAL BUDGET OR ROUGHLY TWO PERCENT OF OUR DEFENSE BUDGET.

WE PROVIDE MILITARY ASSISTANCE TO COUNTRIES ONLY WHEN THERE IS A COMMON MILITARY PURPOSE. WE WANT TO HELP FRIENDLY COUNTRIES DEFEND THEMSELVES ONLY WHEN IT IS CLEARLY IN THE U.S. INTEREST THAT THEY BE ABLE TO DO SO -- IN SOME CASES SO MUCH IN THE U.S. INTEREST THAT WE WOULD GO TO WAR IF NECESSARY TO HELP DEFEND THEM. THIS IS OBVIOUS WITH NATO ALLIES, FOUR OF WHOM ARE MAJOR RECIPIENTS OF U.S. MILITARY ASSISTANCE. THIS HAS BEEN SO SINCE THE END OF WORLD WAR II, AND EVERY PRESIDENT SINCE THEN -- DEMOCRAT AND REPUBLICAN -- HAS GONE TO THE CONGRESS FOR A PRACTICAL SECURITY ASSISTANCE PROGRAM.

IT SHOULD BE EQUALLY OBVIOUS WITH OTHER COUNTRIES WITHIN WHOSE BORDERS WE MAINTAIN VERY IMPORTANT U.S. MILITARY INSTALLATIONS, OR WITH WHOM WE HAVE ARRANGEMENTS TO ALLOW OR EVEN SUPPORT THE TRANSIT OF U.S. FORCES IN A CRISIS OR CONFLICT, THE PRE-POSITIONING OF MILITARY EQUIPMENT FOR SUCH

CONTINGENCIES, JOINT MILITARY PLANNING AND EXERCISES, NOT TO MENTION A WHOLE HOST OF SMALLER ELEMENTS OF MILITARY COOPERATION WHICH HELP US TO SUSTAIN OUR WORLDWIDE MILITARY POSTURE.

WE SHOULD ALSO REMIND OURSELVES THAT SECURITY ASSISTANCE PROGRAMS HAVE POSITIVE DOMESTIC CONSEQUENCES. THE FUNDS YOU APPROVE ARE SPENT FOR EQUIPMENT PRODUCED IN THE UNITED STATES BY AMERICAN WORKERS, OR SERVICES PROVIDED BY AMERICAN CITIZENS.

GENERALLY, OUR MILITARY ASSISTANCE PROGRAMS ARE TARGETED AT THE POORER COUNTRIES WITH WHICH WE HAVE IMPORTANT SECURITY OBJECTIVES IN COMMON FOR OBVIOUS REASONS -- THEY DON'T HAVE THE RESOURCES TO MEET THOSE OBJECTIVES ON THEIR OWN, AND DON'T ALWAYS HAVE THE CAPACITY TO COLLABORATE WITH US WITHOUT OUR HELP. THIS IS THE RESULT ALSO OF THE FACT THAT THE THREATS AND CHALLENGES TO OUR SECURITY INTERESTS HAVE GENERALLY BEEN CONCENTRATED IN THE THIRD WORLD IN RECENT YEARS, AND THAT CONSTITUTES THE GENERAL CASE FOR ECONOMIC ASSISTANCE AS WELL AS MILITARY ASSISTANCE -- WE HELP THEM IMPROVE THE COMMON DEFENSE IN THE SHORT RUN, WHILE WE ALSO HELP, WHERE WE CAN, TO SHORE UP THEIR ECONOMIES IN ORDER TO SUSTAIN OUR COLLABORATION OVER THE LONGER RUN.

THE SECRETARY HAS TRIED TO EMPHASIZE THE IMPORTANCE OF OUR GROWING RELATIONSHIPS IN THE THIRD WORLD IN HIS OWN TESTIMONY BEFORE YOU. LET ME REVIEW AND AMPLIFY SOME OF THE POINTS HE MADE.

- ABOUT 40 PERCENT OF OUR EXPORTS GO TO DEVELOPING COUNTRIES, MANY OF THESE RELY HEAVILY ON OUR SECURITY ASSISTANCE TO DEFEND THEMSELVES AGAINST AGGRESSION OR SUBVERSION.

- EACH $1 BILLION OF U.S. EXPORTS SUPPORTS ROUGHLY 26,000 AMERICAN JOBS, AND ONE OUT OF FIVE MANUFACTURING JOBS TODAY IS RELATED TO U.S. EXPORTS TO THESE THIRD WORLD MARKETS.

- THE FOOD FOR PEACE PROGRAM HAS BECOME A SIGNIFICANT AND STILL FLEXIBLE INSTRUMENT OF OUR FOREIGN POLICY IN RECENT YEARS.

IT SHOULD BE CLEAR, THEREFORE, THAT IN A COMPENDIUM OF

DIRECT AND TANGIBLE BENEFITS OF SECURITY ASSISTANCE TO THE UNITED STATES, CONTRIBUTING TO A STRONGER, SAFER, HEALTHIER MARKET FOR GROWING U.S. EXPORTS IS HIGH ON THE LIST.

THESE PROGRAMS ARE ESSENTIAL, AND THEY HAVE USEFUL DOMESTIC SIDE BENEFITS. BUT THEY HAVE BEEN CUT BELOW THE THRESHOLD OF PRUDENCE.

IT SHOULD BE OBVIOUS TO ANY DISPASSIONATE OBSERVER THAT WE ARE NOT GOING TO DENT OUR FEDERAL DEFICITS BY TAKING BIG CUTS IN PROGRAMS WHICH MAKE UP LESS THAN TWO PER CENT OF THE FEDERAL BUDGET. THOUGH THE CUTS ARE SMALL IN RELATION TO THE DEFICIT REDUCTION EFFORT, THEY HAVE VERY LARGE CONSEQUENCES IN TERMS OF U.S. FOREIGN POLICY:

- IN FY-1986 CONGRESS REDUCED THE PRESIDENT'S REQUEST BY TEN PERCENT. WITH THE 4.3 PERCENT "SEQUESTER" MANDATED BY THE GRAMM-RUDMAN-HOLLINGS ACT, FY-1986 FUNDING FELL 14.3 PERCENT BELOW THE REQUEST.

- IN AN ATTEMPT TO MINIMIZE FURTHER CONGRESSIONAL CUTS, WE CLAMPED DOWN HARD ON THE FY-1987 PROPOSALS AND SUBMITTED A ROCK-BOTTOM BUDGET TO THE CONGRESS.

- YET IN FY-1987 FOREIGN ASSISTANCE APPROPRIATIONS WERE CUT 17 PERCENT BELOW THE REQUEST.

- FOR FY-1987, MILITARY ASSISTANCE WAS CUT TEN PERCENT BELOW THE ACTUAL LEVELS OF THE PREVIOUS YEAR AND ECONOMIC SUPPORT FUNDS 5.4 PERCENT BELOW FY-1986 APPROPRIATIONS.

- MOREOVER, THESE HEAVY CUTS IN OVERALL LEVELS ARE GREATLY MAGNIFIED IN THEIR FOREIGN POLICY CONSEQUENCES BY MASSIVE CONGRESSIONAL EARMARKING.

- THE EARMARKING OF ISRAEL AND EGYPT AT THE FULL REQUEST LEVEL AND ADDITIONAL EARMARKING OF GREECE, PAKISTAN, AND TURKEY LEFT ONLY 14 PERCENT OF THE MILITARY PROGRAM FUNDS AVAILABLE FOR 30 COUNTRIES IN FY-1987.

- THESE CUTS FELL MOST HEAVILY ON PROGRAMS FOR COUNTRIES WITH WHICH WE HAVE BASE RIGHTS AND ACCESS AGREEMENTS -- ESPECIALLY THE SOUTHERN FLANK OF NATO. THE CUTS

CAME AT A TIME WHEN WE WERE RENEGOTIATING SEVERAL OF THESE AGREEMENTS.

MORE SPECIFICALLY,

- SPAIN WAS REDUCED BY 75 PERCENT IN THE MIDST OF RENEGOTIATING THE BASE RIGHTS TREATY. THAT NEGOTIATION, PREDICTABLY, IS NOT GOING WELL.

- PORTUGAL, WHICH PERMITS OUR USE OF THE VITAL LAJES AIR BASE IN THE AZORES, WAS CUT $56 MILLION.

- WE COULD ONLY ALLOCATE $50 MILLION IN MAP FUNDS FOR THE PHILIPPINES. THIS AMOUNT IS LITTLE MORE THAN HALF THE TOTAL FY-1986 ALLOCATION AND HALF OF THE MINIMUM OF $100 MILLION WE THINK THE PHILIPPINES REALLY NEEDS. NOW THAT THE GOVERNMENT'S CEASEFIRE WITH THE INSURGENTS HAS BROKEN DOWN, WE MUST FIND A WAY TO GIVE PRESIDENT AQUINO'S GOVERNMENT ADEQUATE SUPPORT.

ELSEWHERE, THE FY-1987 REDUCTIONS ALSO HAD A PROFOUND EFFECT ON OUR NATIONAL INTERESTS. JORDAN, A KEY PLAYER IN THE MIDDLE EAST PEACE PROCESS, WAS REDUCED BY 50 PERCENT. THE RESULT IS THAT JORDAN CAN NO LONGER BUY SUFFICIENT SPARE PARTS, AMMUNITION OR UPGRADE KITS FOR ITS ARMED FORCES. MOROCCO, WHICH PROVIDES US WITH IMPORTANT ACCESS RIGHTS, WAS CUT 13.1 PERCENT. SOMALIA, IMPORTANT TO OUR FORCE PROJECTION CAPABILITY IN THE REGION, RECEIVED AN ALLOCATION 57 PERCENT BELOW THE FY-1986 LEVEL. KENYA, ANOTHER MILITARY ACCESS COUNTRY, WILL RECEIVE 55 PERCENT LESS THIS YEAR THAN LAST. AND OMAN, WHOSE COOPERATION IS IMPORTANT TO OUR SOUTHEAST ASIA STRATEGY, WILL RECEIVE NO MILITARY ASSISTANCE FUNDS IN FY-1987. TUNISIA, WHICH FACES LIBYA OVER ITS EASTERN FRONTIER, SAW ITS PROGRAM FALL BY 50 PERCENT.

- FURTHER, EL SALVADOR SUFFERED A FOUR PERCENT CUT IN MILITARY ASSISTANCE FUNDS. FORTUNATELY, WE WERE ABLE TO INCREASE ESF FUNDS BY 2.6 PERCENT, BUT ONLY AT THE EXPENSE OF OTHER IMPORTANT ESF PROGRAMS.

IN THESE CASES, THE COUNTRIES AFFECTED ARE LESS ABLE TO DETER AGGRESSION, BECAUSE ESSENTIAL MILITARY EQUIPMENT OR THE SUPPORT TO OPERATE IT CANNOT BE PURCHASED. IF AGGRESSION WERE TO COME, IN SOME OF THESE COUNTRIES, THE UNITED STATES WOULD

FACE THE CHOICE OF GREATER U.S. INVOLVEMENT IN THEIR DEFENSE, OR LETTING OUR ALLIES AND FRIENDS RUN THEIR OWN RISKS OF SURVIVAL WHILE WE STOOD BY.

IN A NUMBER OF THESE COUNTRIES WE ARE DEVELOPING TRANSIT, PRE-POSITIONING, OR BASING ARRANGEMENTS WHICH EXTEND OR ENHANCE OUR OWN MILITARY POSTURE. SUCH ARRANGEMENTS ARE SOMETIMES POLITICALLY CONTROVERSIAL IN THOSE COUNTRIES AND EXTREMELY HARD TO DEFEND IF THERE IS A VISIBLE DECLINE IN OR DISAPPEARANCE OF THE TANGIBLE U.S. CONTRIBUTION TO THE COMMON DEFENSE.

SECURITY ASSISTANCE ONLY MAKES SENSE IF THESE PROGRAMS ARE CLEARLY IN SUPPORT OF THE FUNDAMENTAL NATIONAL INTERESTS OF THE FOREIGN POLICY OF THE UNITED STATES.

THOSE FUNDAMENTAL NATIONAL INTERESTS INCLUDE A JUST AND COMPREHENSIVE PEACE IN THE MIDDLE EAST. SUCH A PEACE WOULD HAVE TO RECOGNIZE THE LEGITIMACY AND ALLOW FOR THE SECURITY OF ISRAEL. IT WOULD HAVE TO PROVIDE FOR SELF-GOVERNMENT FOR THE WEST BANK PALESTINIANS IN ASSOCIATION WITH JORDAN, AND IT WOULD HAVE TO BE THE RESULT OF DIRECT NEGOTIATIONS BETWEEN THE CONCERNED PARTIES.

IN SUPPORT OF THESE GOALS, THE LARGEST PART OF OUR SECURITY ASSISTANCE PROGRAMS, SOME 55 PERCENT, GOES TO EGYPT AND ISRAEL. WITH THIS LARGE COMMITMENT OF RESOURCES WE ENHANCE THE SELF-DEFENSE CAPABILITIES OF THE TWO COUNTRIES WHICH HAVE TAKEN MAJOR STEPS TOWARD PEACE IN THE MIDDLE EAST. WE ALSO LAY THE GROUNDWORK FOR BROADER POLITICAL AND SECURITY COOPERATION WITH JORDAN AND OTHER MODERATE ARAB COUNTRIES. ON THE OTHER HAND, WHEN THE CONGRESS EARMARKS THE REQUESTED AMOUNTS FOR ISRAEL, EGYPT, AND A FEW OTHERS, AND REDUCES OVERALL LEVELS SUBSTANTIALLY, THE RESULT IS THAT WE ARE UNABLE TO ADEQUATELY FUND THE PROGRAMS OF OTHER FRIENDS AND ALLIES WORLDWIDE.

THE MIDDLE EAST PROGRAMS ARE ALSO IMPORTANT BECAUSE OF GEOGRAPHY. THE MIDDLE EAST CONTROLS THE SEA AND AIR LANES BETWEEN EUROPE AND ASIA. THEY ARE ALSO IMPORTANT BECAUSE 70 PER CENT OF THE WORLD'S PROVEN OIL RESERVES LIE THERE AND WE NEED TO PRESERVE THE FREE WORLD'S ACCESS. AND THEY ARE IMPORTANT BECAUSE OF OUR COMMITMENTS MADE TO ISRAEL OVER THE YEARS BY EVERY AMERICAN ADMINISTRATION SINCE 1948.

FOR MANY YEARS U.S. DEFENSE STRATEGY HAS BEEN BUILT AROUND THE COMPLEMENTARY IDEAS OF COALITION DEFENSE AND FORWARD DEPLOYMENT. BOTH REQUIRE THAT THE UNITED STATES HAVE FRIENDS AND ALLIES. OUR ALLIES, UNLIKE THE SOVIETS' HOWEVER, ARE PARTNERS NOT SATELLITES; WE HAVE TO WORK WITH THEM AND TAKE INTO ACCOUNT THEIR PERCEIVED NEEDS AND INTERESTS FOR THE ALLIANCE TO WORK EFFECTIVELY. SOME OF OUR ALLIES, ESPECIALLY THOSE ALONG NATO'S SOUTHERN FLANK, DO NOT YET HAVE THE ECONOMIC STRENGTH TO EQUIP THEIR ARMED FORCES AT THE LEVELS MUTUALLY AGREED UPON IN NATO. OUR SECURITY ASSISTANCE ALONG WITH THAT OF OTHER MORE INDUSTRIALIZED NATO PARTNERS PROVIDES IMPORTANT ADDITIONAL RESOURCES THESE COUNTRIES NEED TO UPGRADE AND MODERNIZE THEIR FORCES. THE MERE EXISTENCE OF THE WELL-TRAINED AND EVER BETTER EQUIPPED FORCES OF PORTUGAL, SPAIN, GREECE, AND TURKEY ARE A POWERFUL DETERRENT TO ANY POWER WITH AMBITIOUS DESIGNS IN THE MEDITERRANEAN OR ALONG THE SOUTHERN FLANK OF NATO. FURTHERMORE, THESE COUNTRIES GIVE US ACCESS TO BASES AND OTHER FACILITIES ON WHICH OUR FORWARD DEPLOYMENT STRATEGY -- WHICH IS CENTRAL TO NATO'S DEFENSE STRATEGY -- DEPENDS.

OTHER FRIENDLY COUNTRIES ALSO PROVIDE US WITH BASING AND OTHER FACILITIES. THE PHILIPPINES, FOR EXAMPLE, PROVIDES US WITH THE BASES AT SUBIC BAY AND CLARK FIELD. THE LOSS OF SUBIC AND CLARK WOULD BE A GEOPOLITICAL DISASTER OF THE FIRST MAGNITUDE FOR THE UNITED STATES AND OUR FRIENDS IN THE PACIFIC. IT WOULD TAKE BILLIONS OF DOLLARS TO REPLACE THOSE BASES ELSEWHERE IF WE COULD, AND OUR ABILITY TO SUPPORT NAVAL FORCES IN THE INDIAN OCEAN WOULD BE SUBSTANTIALLY DIMINISHED. THE INSURGENCY WHICH THREATENS THE AQUINO GOVERNMENT IS THUS A THREAT TO VITAL STRATEGIC INTERESTS OF THE UNITED STATES AND TO SECURITY IN THE PACIFIC. IT IS ESSENTIAL TO PROVIDE THE PHILIPPINES WITH ADEQUATE LEVELS OF MILITARY AND ECONOMIC ASSISTANCE.

ON THE HORN OF AFRICA, KENYA AND SOMALIA PROVIDE US WITH ACCESS RIGHTS WHICH ARE ESSENTIAL PARTS OF OUR SOUTHWEST ASIA STRATEGY. YET BOTH ARE POOR COUNTRIES, MILITARILY WEAK, AND THREATENED BOTH INTERNALLY AND EXTERNALLY. THE RELATIVELY SMALL AMOUNTS OF ECONOMIC AND MILITARY ASSISTANCE WE TRY TO PROVIDE MAY WELL BE CRITICAL.

ALL IN ALL, MUCH OF OUR COALITION DEFENSE AND FORWARD DEPLOYMENT STRATEGIES ARE IN DANGER IF WE FAIL TO PROVIDE

ADEQUATE LEVELS OF SECURITY AND ECONOMIC ASSISTANCE TO THE RELATIVELY SMALL NUMBER OF COUNTRIES WHOSE COLLABORATION IS CRITICAL.

WE BELIEVE WE HAVE CONTRIBUTED TO ANOTHER IMPORTANT AND POSITIVE DEVELOPMENT THROUGH OUR ASSISTANCE PROGRAMS AND WHICH WILL REQUIRE CONTINUED SUPPORT. CENTRAL AMERICA, WITH ONE DEMOCRACY AND FOUR DICTATORSHIPS IN 1980, NOW, IN 1987, BOASTS FOUR DEMOCRACIES AND ONE DICTATORSHIP. OUR ASSISTANCE, THE VAST MAJORITY OF WHICH REMAINS ECONOMIC RATHER THAN MILITARY, PROVIDES THE CRITICAL RESOURCE MARGIN WHICH HAS ALLOWED THIS REMARKABLE CHANGE TO TAKE PLACE. HOWEVER, LET ME UNDERLINE THE IMPORTANCE OF MILITARY ASSISTANCE IN THIS PROCESS. ALL THE ECONOMIC REFORMS AND RESOURCE ASSISTANCE IMAGINABLE WILL COME TO NAUGHT IF THERE IS NO CREDIBLE SECURITY SHIELD IN PLACE TO PROTECT THE NEW ECONOMIC STRUCTURES FROM ATTACK. THE PHILIPPINES, OF COURSE, IS ALSO IN THIS CATEGORY.

OTHER COUNTRIES CONFRONT NEIGHBORS WITH HOSTILE DESIGNS. PAKISTAN LOOKS ACROSS HER BORDER INTO AN AFGHANISTAN OCCUPIED SINCE 1979 BY SOVIET FORCES. AT THE SAME TIME, AFGHAN REFUGEES FLEEING THE SOVIET OCCUPATION ARE PLACING A HEAVY BURDEN ON PAKISTANI RESOURCES. OUR INTERESTS DICTATE THAT WE MUST PROVIDE PAKISTAN WITH THE RESOURCES FOR ECONOMIC DEVELOPMENT AND AN EFFECTIVE DEFENSE. LIKEWISE, THAILAND FACES A VIETNAMESE THREAT FROM NEIGHBORING CAMBODIA. AGAIN, OUR INTERESTS DEMAND THAT WE MAKE RESOURCES AVAILABLE SO THAT THAILAND CAN PRESENT AN EFFECTIVE DEFENSE TO VIETNAM. TUNISIA AND ESPECIALLY CHAD HAVE A SIMILAR PROBLEM WITH THEIR MUTUAL NEIGHBOR, LIBYA, WHICH OCCUPIES THE NORTHERN THIRD OF CHAD. OUR SECURITY ASSISTANCE SUPPORTS THE MUCH LARGER FRENCH EFFORT TO ASSIST CHAD. TUNISIA MUST MODERNIZE HER ARMED FORCES IF SHE IS TO PRESENT A VIABLE DETERRENT TO LIBYA. WE HAVE OFFERED TO ASSIST IN THIS EFFORT. FOR US TO DO SO, CONGRESS MUST GIVE US THE RESOURCES.

BY USING SECURITY ASSISTANCE, THE UNITED STATES PROVIDES RESOURCES TO COUNTRIES UNDER PRESSURE TO DEFEND THEMSELVES. THESE PROGRAMS AT THE SAME TIME GREATLY REDUCE THE RISK THAT U.S. FORCES WILL HAVE TO BE COMMITTED IN SUPPORT OF U.S. INTERESTS. THEY REDUCE THE POSSIBILITY OF SPREADING OURSELVES TOO THIN IN THE THIRD WORLD. IN NO OTHER WAY COULD WE PROTECT VITAL INTERESTS OF THE U.S. AND FRIENDLY COUNTRIES AT SO LOW A COST.

ANOTHER OBJECTIVE OF SECURITY ASSISTANCE IS TO PROMOTE REGIONAL STABILITY. COUNTRIES SUCH AS SENEGAL, JAMAICA, AND THE SMALL ISLAND STATES OF THE CARIBBEAN REQUIRE POLITICAL STABILITY SO THAT THEY CAN PURSUE THEIR ECONOMIC DEVELOPMENT PLANS. IN THESE NATIONS OUR ECONOMIC ASSISTANCE IS BY FAR THE MOST IMPORTANT INGREDIENT OF OUR ASSISTANCE PROGRAMS. MILITARY ASSISTANCE, NEVERTHELESS, PLAYS AN IMPORTANT ROLE.

A LARGE PART OF OUR SECURITY RELATIONSHIP WITH MANY FRIENDLY AND ALLIED COUNTRIES CONSISTS OF SALES OF MILITARY EQUIPMENT, REQUIRING NO APPROPRIATED FUNDS. YET COUNTRIES AS DIVERSE AND DISTANT AS SAUDI ARABIA AND AUSTRALIA, JAPAN AND THE NETHERLANDS, PARTICIPATE. THESE COUNTRIES PURCHASE U.S.-PRODUCED EQUIPMENT FOR CASH. SOME USE THE FMS SYSTEM, OTHERS DIRECT COMMERCIAL SALES, DEPENDING ON THE NEEDS OF THEIR RESPECTIVE MILITARY ESTABLISHMENTS. IN TURN THEY HELP PROTECT VITAL MUTUALLY SHARED INTERESTS AROUND THE WORLD. AS AN ADDED BENEFIT, THESE PURCHASES SUSTAIN TENS OF THOUSANDS OF U.S. JOBS AND LOWER THE COSTS OF EQUIPMENT FOR OUR OWN FORCES BECAUSE THEY LOWER THE UNIT COST OF EACH ITEM PURCHASED.

FINALLY, THE SECURITY ASSISTANCE PROGRAM INCLUDES THE INTERNATIONAL MILITARY EDUCATION AND TRAINING (IMET) PROGRAM. THIS TRAINING PROVIDES FRIENDLY COUNTRIES NECESSARY PROFESSIONAL AND TECHNICAL SKILLS THEY NEED TO RUN THEIR MILITARY ESTABLISHMENTS. MANY OF THE OFFICERS TRAINED HERE LATER OCCUPY POSITIONS OF GREAT RESPONSIBILITY IN THEIR COUNTRIES. IF AN OFFICER'S TRAINING IS A WORTHWHILE EXPERIENCE -- AND WE WORK HARD TO MAKE SURE THAT IT IS -- THEN THE UNITED STATES HAS A VALUABLE CONTACT. WE BELIEVE THE VALUE OF THE PROGRAM FAR EXCEEDS WHAT IT COSTS THE UNITED STATES IN TRAINING, AND THUS -- DOLLAR FOR DOLLAR -- IS A VERY EFFECTIVE PROGRAM.

IN ADDITION TO OUR BUDGET REQUESTS, THE AUTHORIZATION BILL CONTAINS A NUMBER OF PROVISIONS AMENDING THE SUBSTANTIVE AUTHORITIES THAT GOVERN SECURITY ASSISTANCE PROGRAMS. ENACTMENT OF THESE PROVISIONS WILL ENABLE US TO ADMINISTER THE PROGRAMS MORE EFFICIENTLY AND USE SCARCE FUNDING RESOURCES MORE EFFECTIVELY IN SUPPORT OF OUR NATIONAL INTERESTS. I BELIEVE THAT VIRTUALLY ALL OF THESE LEGISLATIVE REQUESTS ARE NONCONTROVERSIAL AND DO NOT RAISE MAJOR ISSUES OR QUESTIONS. I WILL DISCUSS A FEW THAT MERIT SPECIAL MENTION.

SECTION 513 OF THE BILL WOULD PERMIT THE PROVISION OF MILITARY AND ECONOMIC TRAINING ASSISTANCE TO BRAZIL AND ARGENTINA SO LONG AS EACH COUNTRY CONTINUES TO HAVE A DEMOCRATICALLY ELECTED GOVERNMENT AND THE TRAINING ASSISTANCE IS CONSISTENT WITH ANY APPLICABLE PROVISIONS OF LAW PERTAINING TO HUMAN RIGHTS AND CIVILIAN LAW ENFORCEMENT TRAINING. TRAINING ASSISTANCE TO BOTH COUNTRIES IS PRECLUDED BECAUSE OF POSSIBLE APPLICATION OF THE GLENN AND/OR SYMINGTON AMENDMENTS AS A RESULT OF UNSAFEGUARDED NUCLEAR ACTIVITIES. WE BELIEVE THAT RESUMPTION OF TRAINING PROGRAMS WOULD ENHANCE U.S. RELATIONS WITH BOTH COUNTRIES, IN ADDITION TO THE SPECIFIC BENEFITS OF THE TRAINING ITSELF. ENACTMENT OF THIS PROVISION WOULD MAKE SUCH TRAINING POSSIBLE AND ELIMINATE ANY CONFUSION OR QUESTIONS ABOUT ELIGIBILITY DUE TO PROLIFERATION CONCERNS. WE WILL, OF COURSE, CONTINUE TO URGE ARGENTINA AND BRAZIL TO SIGN THE NUCLEAR NONPROLIFERATION TREATY.

SECTION 514 WOULD AMEND SECTION 660 OF THE FOREIGN ASSISTANCE ACT TO ALLOW LAW ENFORCEMENT TRAINING FOR DEMOCRATICALLY ELECTED GOVERNMENTS. PRESENT AUTHORITY TO ASSIST COUNTRIES IN DEVELOPING AN EFFECTIVE AND HUMANE LAW ENFORCEMENT EFFORT IS FRAGMENTED. YET THIS EFFORT, INCLUDING A FUNCTIONING JUDICIARY, IS AN ESSENTIAL ATTRIBUTE OF A DEMOCRACY. CITIZENS MUST HAVE CONFIDENCE THAT DISPUTES CAN BE RESOLVED THROUGH A FAIR AND EFFECTIVE CRIMINAL JUSTICE SYSTEM. AT PRESENT WE TEND TO ENCOURAGE POCKETS OF DEVELOPMENT IN SEPARATE AREAS SUCH AS NARCOTICS, ANTI-TERRORISM AND CRIMINAL INVESTIGATION FOR THE COURTS. BUT IN A RESOURCE-POOR COUNTRY THERE ARE NOT ENOUGH PERSONNEL, NOR IS THERE THE ADMINISTRATIVE STRUCTURE TO ACCOMMODATE ALL THESE SEPARATE PROGRAMS. ASSISTANCE IS NEEDED TO PROMOTE THE DEVELOPMENT OF A COHESIVE PROGRAM, CONSISTENT WITH THE OBJECTIVE OF DEMOCRATIC DEVELOPMENT. THIS AMENDMENT BY ITSELF DOES NOT AUTHORIZE NEW PROGRAMS OF ASSISTANCE. ITS ENACTMENT WOULD, HOWEVER, PERMIT US TO WORK WITH THESE DEMOCRATIC GOVERNMENTS TO DEVELOP THE SKILLS LEVEL OF LAW ENFORCEMENT PERSONNEL, INCREASING THEIR CONFIDENCE IN FOLLOWING ACCEPTABLE AND HUMAN RIGHTS ORIENTED ENFORCEMENT PRACTICES. THIS DENIES INSURGENTS THE OPPORTUNITY TO USE POLICE ABUSE AS A PROPAGANDA ISSUE AGAINST DEMOCRATICALLY ELECTED GOVERNMENTS. THE PROVISION REQUIRES THAT THE ADMINISTRATION NOTIFY CONGRESS OF THE AMOUNT AND NATURE OF THE PROPOSED ASSISTANCE 15 DAYS IN ADVANCE OF OBLIGATING ANY FUNDS PURSUANT TO THIS EXCEPTION.

SECTION 511 WOULD AMEND SECTION 534 TO AUTHORIZE THE ADMINISTRATION OF JUSTICE PROGRAM IN LATIN AMERICA AND THE CARIBBEAN TO CONTINUE AFTER FY-1987. IT WOULD ALSO BROADEN THE SCOPE OF THE PROGRAM TO INCLUDE TRAINING IN THE ENTIRE INVESTIGATIVE PROCESS, AND EXEMPT THE PROGRAM FROM APPLICATION OF THE SECTION 660 PROHIBITIONS SO LONG AS CONGRESS HAS BEEN NOTIFIED IN ADVANCE OF THE ACTIVITY THAT WOULD OTHERWISE HAVE BEEN PROHIBITED. THIS SECTION MAKES IT CLEAR THAT THE AUTHORITY FOR JUDICIAL PROTECTION WILL BE MEANINGFUL AND THAT POLICE OR PRISON OFFICIALS MAY BE INVOLVED IN THE EFFORT. THIS CHANGE WILL ALSO EXEMPT PARTICIPATION IN REGIONAL AND MULTILATERAL ACTIVITIES FROM OTHER STATUTORY PROHIBITIONS. UNDER CURRENT LAW A NUMBER OF COUNTRIES IN THE HEMISPHERE COULD BE EXCLUDED FROM PARTICIPATION IN REGIONAL ACTIVITIES BY APPLICATION OF ANY OF A HOST OF RESTRICTIVE STATUTES. AGAIN, CONGRESS WOULD BE NOTIFIED OF ANY EXCEPTIONS IN ADVANCE.

SECTION 515 WOULD EXTEND THE CURRENT NATIONAL INTEREST WAIVER AUTHORITY FOR PAKISTAN IN SECTION 620E(d) TO SEPTEMBER 30, 1993. THIS EXTENSION IS ESSENTIAL TO PERMIT ASSISTANCE TO PAKISTAN UNDER THE NEW MULTI-YEAR PROGRAM. THE MULTI-YEAR PROGRAM OF SUPPORT TO WHICH -- WITH THE SUPPORT OF CONGRESS -- WE AGREED IN 1981 IS IN ITS FINAL YEAR. IT HAS BEEN NOTABLY SUCCESSFUL IN ACHIEVING ITS OBJECTIVES, BUT THE PRESSURES ON PAKISTAN, AS A CONSEQUENCE OF THE SOVIET UNION'S INVASION OF NEIGHBORING AFGHANISTAN, HAVE NOT ABATED. PAKISTAN REMAINS AS VITAL AS EVER TO THE PROSECUTION OF A SUCCESSFUL POLICY OF OPPOSITION TO SOVIET AGGRESSION. IN THE FACE OF CRUDE INTIMIDATION, PAKISTAN HAS STOOD FIRM IN ITS OWN INTEREST BUT ALSO IN THE SECURE KNOWLEDGE OF OUR CONTINUING SUPPORT. WE MUST ENSURE, BY OUR FIRM SUPPORT, THAT PAKISTAN KNOWS IT DOES NOT STAND ALONE.

OUR PROPOSED NEW ASSISTANCE PACKAGE WILL HELP PAKISTAN CONTINUE TO ADDRESS ITS VITAL DEFENSE MODERNIZATION AND REFUGEE-RELATED NEEDS WITHOUT SACRIFICING AN AMBITIOUS PROGRAM OF ECONOMIC GROWTH AND DEVELOPMENT. THE 57-43 SPLIT IN FAVOR OF ECONOMIC OVER MILITARY ASSISTANCE, AS OPPOSED TO THE 50-50 DIVISION IN THE CURRENT PROGRAM, REFLECTS THE PRIORITIES OF PAKISTAN'S NEW CIVILIAN LEADERSHIP. CONGRESSIONAL SUPPORT FOR THE PACKAGE WILL UNDERSCORE OUR LONG-TERM, BIPARTISAN COMMITMENT TO PAKISTAN'S SECURITY AND PROGRESS.

FINALLY, SECTION 116 WOULD CONVERT UNCOMMITTED FMS CREDIT BALANCES FOR THE PHILIPPINES TO GRANT ASSISTANCE. THE AQUINO GOVERNMENT IS PURSUING ECONOMIC REFORM AND HAS STATED THAT IT CANNOT AFFORD TO DRAW DOWN UNCOMMITTED FMS CREDITS. WITH A DEBT SERVICE RATIO APPROACHING 50 PER CENT AND AN ECONOMY THAT SUFFERED A MINUS FOUR PER CENT IN GROSS NATIONAL PRODUCT IN 1985 WITH THE SAME PROJECTED IN 1986, WE BELIEVE THAT GRANTS, NOT LOANS, ARE FULLY JUSTIFIED. THE PHILIPPINE ARMED FORCES NEED THE APPROXIMATELY $30 MILLION AT STAKE HERE TO PROVIDE NEEDED EQUIPMENT AND MAINTENANCE, PARTICULARLY FOR THEIR HELICOPTER AND VEHICLE FLEETS WHICH ARE CURRENTLY IN A POOR OPERATIONAL STATE.

I URGE THIS COMMITTEE TO GIVE SERIOUS CONSIDERATION TO ALL OF OUR LEGISLATIVE PROPOSALS. THAT I HAVE NOT DISCUSSED EACH AT LENGTH TODAY DOES NOT MINIMIZE THEIR IMPORTANCE. WE ARE PREPARED TO DISCUSS THE MERITS AND RATIONALE FOR EACH WITH YOU OR YOUR STAFF. THOUGH SOME PROPOSALS MAY SEEM TECHNICAL OR INSIGNIFICANT, WE BELIEVE THAT EACH IS SUFFICIENTLY BENEFICIAL TO WARRANT INCLUSION IN THE ADMINISTRATION BILL AND ENACTMENT BY THE CONGRESS.

IN CLOSING I WOULD LIKE TO RETURN TO SECRETARY SHULTZ'S THEME THAT DRACONIAN CUTS IN THE FOREIGN AFFAIRS BUDGET ARE CAUSING A SELF MADE FOREIGN POLICY CRISIS. THE ADMINISTRATION IS FULLY COMMITTED TO REDUCING THE BUDGET DEFICIT. OUR SECURITY ASSISTANCE SUPPLEMENTAL REQUEST FOR FY-1987 AND BUDGET REQUEST FOR FY-1988 CAREFULLY BALANCE THE NEED FOR FISCAL AUSTERITY WITH THE NEED TO PRESERVE NATIONAL SECURITY AND THE U.S. POSITION IN THE WORLD. THE UNITED STATES CANNOT AFFORD ANOTHER ROUND OF BUDGET CUTS LIKE LAST YEAR AND THE YEAR BEFORE. TO DO SO COULD IMPERIL OUR INTERESTS AROUND THE WORLD AND COULD RAISE TO UNACCEPTABLY HIGH LEVELS THE RISK THAT U.S. FORCES WOULD HAVE TO PROTECT OUR VITAL INTERESTS DIRECTLY. IT WOULD, IN EFFECT, RETURN THE UNITED STATES TO THE DISCARDED POLICY OF ISOLATIONISM. WE WOULD MAKE THIS DECISION BY DEFAULT, NOT BY DEBATE OVER THE PRO AND CONS OF THE POLICY. SUCH A COURSE OF EVENTS WOULD BE UNFORTUNATE AND POTENTIALLY DISASTROUS FOR THIS COUNTRY. I BELIEVE THAT YOU FULLY COMPREHEND THE SCOPE OF THAT POTENTIAL DISASTER.

THEREFORE, I URGE YOU TO GIVE CAREFUL CONSIDERATION TO OUR REQUEST. WE STAND READY TO WORK WITH YOU IN ANY WAY WE CAN TO REACH OUR COMMON OBJECTIVE OF PROVIDING FOR THE VITAL INTERESTS OF THIS COUNTRY. WORKING TOGETHER, I AM CONVINCED WE CAN ACHIEVE THE GOALS WE SET OUT TO ACCOMPLISH.

PREPARED STATEMENT OF M. PETER McPHERSON

Mr. Chairman, it is a pleasure to appear before you to present the Administration's FY 1988 proposed program for foreign economic assistance.

The overall fiscal constraints with which we are all confronted in the effort to gain better control of the Federal deficit challenges our ability to continue to achieve our foreign policy and economic assistance objectives. The challenge is to develop a program which will meet growing demands and new opportunities with very limited resources.

The budget request which we submit to you is based on two important considerations. It is designed to focus on the highest priority foreign policy and economic assistance objectives and it incorporates new authorizing initiatives for improving the effectiveness of our program including the Development Fund for Africa.

There are important reasons why foreign aid is critical to our national interest -- but these are often not well understood within our own country -- especially in the face of domestic budget cuts.

As the Secretary has testified, the health of our nation is inextricably bound up with the objectives of foreign policy and the foreign assistance program is vital to the achievement of these objectives. United States national security interests in the Middle East and Central America depend upon the stability of those regions -- political stability that is based on economic stability. Without effective foreign assistance from the United States, economic growth prospects are grim for many Third World countries that are increasingly important to us -- economically as markets and trading partners, as well as politically. We depend on many countries that are unable to meet their security requirements and critical development needs from their own resources.

Domestic Benefits of Foreign Aid

Foreign aid has brought direct benefits to the United States economy with the development of new trading opportunities for American business. Indeed, without foreign assistance our economy would suffer. Over 40 percent of all United States exports are bought by developing countries. In 1981, Korea bought more food from the United States than we had given that country in 24 years of Food for Peace shipments. High rates of economic growth by developing countries during the last several decades have benefited United States farmers. These countries are our fastest growing markets. Their agricultural imports from the United States increased from $1.1 billion in 1970 to a peak of $15.4 billion in 1981. In 1983, developing countries accounted for 50 percent of total United States grain and feed exports.

With our assistance, many countries, particularly in East Asia, Southeast Asia and Latin America, previously classified as "less developed" are now "newly industrialized" and are in a position to help other countries. Finally, up to 70 percent of United States bilateral foreign assistance is spent on American commodities, equipment and services to support overseas development programs.

Foreign aid promotes the humanitarian ideals and democratic values of the American people. In the past 25 years American aid brought emergency relief to victims of 800 natural disasters. We can be proud of helping Africa turn the corner in fighting the effects of one of the worst droughts in history. Without our food aid an estimated 20 million people would have died in sub-Saharan Africa. Not only has America responded to emergencies, but we have contributed to sustained development: for example, the eradication of smallpox; the reduction of child mortality by one half; the majority of children in developing countries entering primary school; life expectancy increased by 10-20 years in the Third World; India's self-reliance in grains, and the beginnings of a Green Revolution in Africa. Democratic values have been enhanced by America's humanitarian assistance as well as through our direct support for democratic elections. Democratic processes have been gaining support throughout the Third World. In Latin America the percentage of people living under democratically elected governments has risen from 30 percent in 1979 to over 90 percent today.

Our foreign aid is playing an important role in the war on drugs by supporting anti-narcotics activities which the governments of those developing countries where narcotics are produced do not have the economic resources to launch.

Foreign Aid Achievements

I would like to cite some examples of the successful achievements of foreign aid particularly in the last six years.

Economic growth

Given the 100 percent increase in the price of oil in 1979, prolonged recession in industrial economies, historically high real interest rates and increased trade barriers in the developed world, it is not surprising that the economies of developing countries are best characterized by decline rather than growth during the 1981-1985 period. A major focus of A.I.D. has been to assist countries that were in serious trouble to achieve economic stabilization and to make the necessary economic policy adjustments to move back on the path to growth. Countries in which significant progress has been made in adopting policy and institutional changes necessary for growth include the Dominican Republic, Costa Rica, Ecuador, Zambia, Zaire, Somalia, Niger, Bangladesh and Israel.

In the 1970's Costa Rica borrowed heavily to finance its growing public sector. In 1981 the country was forced to suspend principal and interest payments on its foreign debt.

A.I.D., in close coordination with the International Monetary Fund and the World Bank, began extensive macroeconomic policy dialogue with the Costa Rican government to identify necessary policy reforms. The government agreed to reduce its fiscal deficit, unify its exchange rate, and free its economy. A.I.D. supported the economy in the interim with $550 million in economic assistance from 1981 to 1985. As a result the fiscal deficit was cut from 14.1 percent of GDP to 1.5 percent and the government is divesting many parastatals. The GDP grew by 10.6 percent in 1983-1985; inflation dropped from 108 percent in 1982 to 11 percent in 1985, and exports of non-traditional products outside Central America rose by 31 percent in 1984 and 24 percent in 1985.

Program Success Stories

The impact of A.I.D.'s effort to increase the incomes of the poor is illustrated by projects in the low-income countries of Asia and the Near East, Latin America and the Caribbean and Africa. Honduras is an example. In the late 1970's coffee rust disease invaded Honduras, threatening the smaller coffee producers who lacked the technical expertise and resources to combat it. A.I.D. implemented the $20 million Small Farmer Coffee Improvement project to mitigate the adverse impact of coffee rust. To date over 4,000 small farmers have received credit to plant new improved coffee varieties and to purchase inputs that combat the disease. Average yields have increased over fivefold and net income per farm has increased by 90 percent as a result of the project.

In Zaire the recently completed North Shaba Rural Development project was instrumental in stimulating economic growth in a depressed region of the country. As a result the marketing of food grains increased by 220 percent from 30,000 metric tons in 1977 to 96,000 metric tons in 1986. Elements of this experience are now being applied in the Central Shaba area.

In Egypt the Small Farmer Production project provided 90,564 loans valued at $49 million to 51,000 farmers. The repayment rate is remarkable with only about 1 percent past due. Maize yields on the project lands doubled and are well above the all-Egypt average.

A.I.D-supported child survival activities have already registered some striking successes around the world. Several years ago, the average immunization coverage of children in developing countries was less than 5 percent; today, the average in A.I.D.-assisted countries is over 30 percent. Other interventions are also beginning to take hold. The World Health Organization estimates that 50 percent of families in developing countries (excluding China) had access to Oral Rehydration Salts (ORS) by the end of 1985, up from only 5 percent in 1982. The number of ORS packets produced worldwide rose from 90 million in 1983 to 320 million in 1986. A.I.D. alone provided 100 million packets in the last year.

In Honduras where the United States has supported health programs for forty years, the most recent health project emphasizes both child survival technologies and support services to sustain them. The results of these efforts by the Honduran government, A.I.D. and other donors are measurable: a 40 percent decrease in deaths from diarrheal disease over the past five years; over 90 percent of the population vaccinated against polio and 80 percent against measles, diptheria, tetanus and whooping cough; an increase of one month in the mean duration of breastfeeding in urban areas, reduction in malaria, increased use of family planning; and a drop in infant mortality from 88 per 1,000 live births to 71 since the mid-1970's.

What Remains to Be Done

We have achieved much, but we cannot be complacent for there are still problems and challenges. The good news is that our past successful investments have put us on the brink of changes from which the United States and the developing world stand to reap even greater benefits. We know that the policies of a large number of countries still inhibit the growth of economic markets and individual responsibility and decision-making. But through policy discussions with many countries backed up by programs, we have seen the beginning of commitment and change by many governments. The policy environments are changing to encourage free market systems and to allow the realization of individual initiatives. Fifteen African countries are now in the process of privatizing government-owned enterprises, ten have devalued their currencies, and sixteen have reduced government expenditures and budget deficits. In total, two-thirds of Africa's lowest income countries are undertaking major economic restructuring.

We know that infant mortality rates in two-thirds of A.I.D.-recipient countries are still over 75/1000. But, we also know that a significant number of deaths of infants and children can be averted through the use of two available technologies, oral rehydration therapy and immunization. A new vaccine against malaria, of which there are 200 million cases per year, has been developed and field trials are now beginning with A.I.D. support.

We have a combination of experience, knowledge and examples of what works upon which to base our future development efforts. The lessons of the past have put us in a good position to tackle the future.

One of the most important lessons we have learned over the past three decades is that most problems and solutions involve complex interactions and interrelationships. Rarely can we rely on a single factor or intervention to bring about the successful solution of a development problem. For example, food production requires attention to transport and other rural infrastructure, to training systems and to pricing and marketing, as well as technical inputs. Responsible environmental policies are closely linked to responsible policies of resource utilization in all sectors and thus to the policies and strategies supporting economic growth and employment. The survival of children depends not only on technologies for treatment and prevention, but also on mothers' education and health, available resources, and environmental conditions like water and sanitation.

If unlimited resources were available we could simultaneously provide all the separate inputs needed for the solution to these problems. However, no developing or developed country has the resources to address all these needs individually. Therefore, we need a more sophisticated development strategy that includes certain focused priority interventions, which are carefully integrated with complementary and supporting activities to bring about a result that is greater than the sum of the parts. For example, we need a program which includes focused activities addressing very specific problems, such as, research on cowpeas in Senegal or development of a malaria vaccine or telecommunications to extend information to remote areas such as the mountains of Nepal. However, to ensure the benefit of our investment in these inputs, our strategy must also address: the farming systems; the market systems and the prices which motivate farmers to grow the cowpeas; the environmental systems which will restrict the malaria vectors and the health systems which will deliver the vaccine; the education and training systems which will enable people to use information and function effectively within these systems. Using this approach A.I.D.'s assistance programs seek a balance between projects addressing priority needs in selected sectors and an overall development strategy encouraging integration, complementarity and sustainability among programs.

Our program strategies also seek a balance between economic growth and basic human needs objectives. We must have both. Economic growth is essential for sustained development of any kind. On the other hand, expanding education, progress in human rights, increasing social and economic opportunity for women, and greater access to family planning information and services are all part of the complex dynamic leading to more open and egalitarian societies, free markets and democratic institutions. We know these are also the essential ingredients for economic growth.

The limited availability of resources in FY 1987 has made development programming painful. The limits on overall resource levels combined with mandates to support specific activities within these levels have constrained the programming flexibility the Agency must have to carry out the integrated and synergistic development approach that I have just described. The flexibility necessary for this approach is the basis for our proposal for a Development Fund for Africa.

I believe that the payoff of this approach is not only that it is cost effective, but that it brings results which embody the essence of American traditions and values.

Effects of the FY 1987 CR

Faced with growing demands upon our limited foreign assistance resources, we have not only scrutinized our priorities very carefully so that we support the most important needs, but we are also proposing creative new ways of implementing our program. I would like to describe how the FY 1987 budget situation has affected the development approach I have outlined and how we have structured our FY 1988 Request to further Congressional and foreign policy goals most effectively.

In FY 1987 Congress provided $1.494 billion for functional account development assistance, a 4 percent decrease from the FY 1986 level and an 8 percent decrease from our request. Although only a 4 percent decrease from FY 1986, serious imbalances were created in the functional account mix. The Selected Development Activities (SDA) account was 16 percent lower than the FY 1986 level and 35 percent lower than our request. As a result of the sharp cut in the SDA account which is the primary support for our private sector initiatives, we cannot carry out many of our planned new small enterprise development initiatives. The Child Survival Fund was up 100 percent from FY 1986 and 200 percent from our request. Over half of DA Health Account resources were already planned for child survival activities. Child survival activities remain a high Agency priority, but the objectives of reducing infant and child mortality depend not only on provision of selected child survival interventions, but also on increased agricultural production aimed at reducing malnutrition and recurring starvation. Despite this, the downward trend in appropriations for agricultural assistance (down 15 percent from FY 1985 and 5 percent from FY 1986) has continued.

Further exacerbating the budget reduction and imbalances in functional accounts are DA earmarks of over $170 million for country levels and programs on the one hand, and funding floor provisions for Africa and Central America on the other. Due to these restrictions, DA for central programs and many countries in Asia, Near East, South America and the Caribbean must be cut back resulting in loss of momentum in our private sector initiatives in many of these regions and postponement of agricultural diversification programs. Because of funding levels, many of the new small farmer projects will have to be deferred. We also face: reductions in the export of United States products and a consequent loss of jobs resulting from economic slowdown in some regions; deferral of participant training for the targeted number of LDC individuals; reduction in support for research, PVOs, private enterprise and other centrally administered initiatives in support of worldwide development programs.

For FY 1987, Congress appropriated $3.550 billion in Economic Support Funds (ESF) (including $300 million transferred pursuant to the Military Construction bill) compared to our ESF request of $4.094 billion. Most of the tension within the ESF account is caused by the high level of earmarks in the Continuing Resolution (CR) and previously enacted authorizing legislation. Specific country earmarks and commitments absorb a total of $2.979 billion or 84 percent of the appropriation compared to $2.709 billion or 72 percent of the appropriation in FY 1986. As a result of the heavy earmarking and because of Administration and Congressional concern for an acceptable funding level for economic assistance in Central America, many of the unearmarked countries in Africa and Latin America and the Caribbean have been severely reduced from their request levels. This has resulted in: reduced balance of payments support to countries struggling with heavy debt burdens, impairing their ability to regain a sound economic footing and risking a rise in economic and political instability; limitations on our ability to encourage the movement of politically important countries away from reliance on the Soviet Bloc; a two-thirds cutback in the successful new program of United States support for African economic policy reform; and weakening of our support for the Caribbean Basin Initiative.

FY 1987 Supplemental Request

The Administration is requesting a total of $404,984,000 in supplemental appropriations for A.I.D. for FY 1987. The supplemental request consists of: $397,000,000 for the

Economic Support Fund and $7,984,000 in Operating Expenses. The $397 million ESF request includes additional funding for the support of continued development of democratic institutions in Central America ($200 million) and $100 million to assist EL Salvador in addressing its long-term earthquake reconstruction needs; narcotics-related economic assistance programs, expected to go to Bolivia ($10 million); the Southern Africa initiative, including South Africa ($50 million); and military access and base rights arrangements ($37 million).

A supplemental request of $7.984 million in OE will be used to cover the FY 1987 costs of the new Federal Employees' Retirement System and half the costs of the FY 1987 Federal employees' pay raise. The funds are to be divided between the regular operating expense account and the operating expenses of the Inspector General.

FY 1988 Budget Request

The Administration is requesting an authorization of $5,749,997,000 and an appropriation of $5,809,259,000 for FY 1988 bilateral economic assistance programs. The authorization request does not include $25 million for deobligation/-reobligation authority or the $34.3 million for the Foreign Service Retirement and Disablility Fund. This request includes funding for Development Assistance and the Economic Support Fund. We are proposing an FY 1988 budget which is essentially the same as the FY 1986 and FY 1987 appropriated levels to meet our country's most critical foreign policy and development objectives, assuming adequate flexibility in programming options. These objectives cannot be met if we sustain significant cuts or further restrictions on flexibility.

A.I.D. is proposing a new program in sub-Saharan Africa which would increase our effectiveness in addressing the complex and interrelated problems besetting the continent. The request for this program will be described in detail below.

Because of this new proposed mechanism, the requests for functional account levels will not include funds for bilateral or regional activities in Africa which are included under the new Development Fund for Africa.

Program Requests

-The request for Agriculture, Rural Development and Nutrition in FY 1988 is $471.0 million not including funds requested under the Development Fund for Africa. The FY 1988 budget will support a program focused on increasing incomes of the rural poor, expanding the availability and consumption of food -- while maintaining and enhancing the natural resource base. The interrelationship between sustainable agricultural productivity and natural resource management is particularly critical and I will discuss this later.

-For FY 1988, a P.L. 480 Title I program level of $852.0 million is proposed. We project that this amount will finance food shipments of about 5.9 million metric tons (grain equivalent basis). A Title II program level of $535 million is proposed. This should finance delivery of the legislatively mandated minimum tonnage of 1.9 million metric tons (grain equivalent basis) of food.

-A.I.D. is requesting $207.5 million for population assistance in FY 1988, not including projects funded from the Development Fund for Africa. This request is a essentially at the level of our FY 1987 appropriation, and is consistent with continued commitment for voluntary family planning services in the developing world. A significant proportion of this request will be programmed to support the work of non-governmental organizations.

-A total of $120.1 million is being requested for the Health account, not including projects funded from the Development Fund for Africa. As in previous years, a major portion of the Health DA funds will be devoted to child survival activities.

-The Child Survival Fund request is $61 million, excluding funding for child survival activities from the Africa Development Fund, which is the same as the FY 1987 appropriated level. Funding for immunization and ORT from the Health Account, Child Survival Fund and other sources is expected to exceed the total requested for the Child Survival Fund ($61 million) in FY 1988.

-A.I.D. is requesting $123.6 million for education and human resources development, exclusive of EHR activities under the Development Fund for Africa. Training for administrators, managers, scientists and technicians is about 60 percent of the EHR program. About 25 percent will support elementary, secondary and adult education and about 10 percent vocational/ technical training. About 60 percent of this request will support EHR activities and training in LAC.

-A.I.D. is requesting $162.7 million for the Private Sector, Energy, and Private and Voluntary Organizations Account, excluding funds requested under the Development Fund for Africa, compared to an FY 1987 request level of $211.1 million and an enacted level of $133.2 million (excluding Africa activities). I will discuss this account in more detail later.

-A.I.D. is requesting an appropriation of $3.6 billion for ESF for FY 1988, including $12.5 million in deobligation/ reobligation estimates. This request is unchanged from the FY 1987 appropriated level of $3.6 billion which includes $50 million in deobligation/reobligation estimates. Consistent with its objective of promoting peaceful solutions to problems affecting United States interests, material security and the achievement of foreign policy objectives, the key elements of the FY 1988 ESF request include: continued efforts to achieve peace and stability in the Middle East through economic aid to Israel and Egypt; support for development activities in Jordan, West Bank and Gaza and regional cooperation activities among Israel, Jordan and other neighboring Arab countries; provision of critical balance of payments support to Turkey; economic assistance to base rights and military access countries such as Philippines, Turkey and Portugal; support for economic and political reform in the Philippines, Jamaica and Haiti; assistance to Central American democracies to achieve economic stability and growth and strengthening their democratic institutions and respect for human rights; and, in Africa, facilitating economic recovery and growth in a selected group of strategically important countries by providing balance of payments support.

-For FY 1988 A.I.D. is requesting $426,810,000 in new budget authority for its Operating Expense Appropriation. This represents an increase of $37.8 million over the FY 1987 funding availability, $16.6 million of which is required to cover mandatory costs associated with the new Federal Employees' Retirement System and the January 1987 Federal pay raise. Due to funding shortages in the OE appropriation in FY 1986 and FY 1987, Congress authorized the Agency to charge many overseas expenses to program accounts. The FY 1988 OE request will enable the Agency to resume funding of all operating expense costs from this account.

-A.I.D. is requesting $500 million for the proposed Development Fund for Africa.

Development Fund for Africa

I would like to describe this new initiative in some detail now. In my previous appearances before this Committee, I pointed out that Africa has made progress in increasing life expectancies, decreasing infant and child mortality, and limiting the worst nutritional effects of severe weather. Our drought relief activities in Africa, which continue at a much reduced level from last year and the year before, saved literally millions of people from starvation. I also discussed the continuing special problems that Africa faces -- recurrent drought, declining export revenues, limited and fragile natural resources, inadequate productive infrastructure, weak economic policies, and a largely unformed human resource base.

America has a growing self-interest in Africa. From a humanitarian standpoint we are bothered by the knowledge that people still starve and human lives are lost every day because of low incomes, preventable diseases and lack of knowledge about how to overcome these problems. From a strategic point of view, we recognize that long-term political stability in Africa and elsewhere will remain elusive as long as hunger and disease are rampant and hopes for a better future are dashed time and again by a combination of bad policies and natural disasters.

A cornerstone of our FY 1988 program for Sub-Saharan Africa is the proposed Development Fund for Africa which will combine the DA functional account resources for Africa including the Sahel Development program and a number of activities and programs formerly provided from the ESF. The proposal for the Development Fund for Africa, which grew out of a 15-agency Executive Branch review of how best to structure our assistance program for Africa, will enable us to increase the effectiveness of our assistance. Last May, at the United Nations General Assembly Special Session on Africa, the African countries as a group endorsed the need for such programs, recognizing that their own actions were key to resolving the continent's economic and financial constraints.

Essential elements of the proposal are: (1) the elimination of functional accounts to permit more effective use of limited resources; (2) continued emphasis on both economic policy reform and basic needs such as food production, health, child survival, and population; and (3) no-year funds to increase management effectiveness.

Across the continent -- in Guinea, Mali, Zaire, Malawi, Zambia, Somalia, and Niger, for example -- African leaders are giving increased attention to economic reform efforts. Moreover, our experience shows macroeconomic policies do directly influence the individual well-being of the poor. Zambia provides a case in point. The Zambian economic reform program includes liberalization of agricultural pricing, elimination of fertilizer subsidies, and an increased role for the private sector in agricultural marketing. These specific actions were ingredients in the original economic reform proposal. The equity effects of the program have been remarkable--the major beneficiaries are small farmers who had been for the most part at the basic subsistence level. Their incomes have risen significantly and are expected to continue at a high level. In the past, large farmers were the major beneficiaries of fertilizer subsidies and were helped by the system of administered foreign exchange availabilities. The result of our current program is more dynamic, competitive markets in which the poor have a fair chance of participating.

In order to implement this development approach I want to emphasize that the Fund must be as flexible as possible. Restrictions or earmarks will limit our ability to respond to evolving situations without disturbing ongoing negotiations for other activities. We are also requesting the Fund resources be available on a no-year basis so we can withhold a specific amount of money until our conditions are met -- in both project and non-project situations -- without the danger that these resources will not be available in the future - a situation which can seriously damage our negotiating position.

We also propose that the Fund provide the resources needed in FY 1988 and beyond for the Southern Africa Initiative proposed for initial funding in the FY 1987 Supplemental. The Initiative will focus on transportation, policy reform, and trade promotion.

106 Account

I would like to discuss another area about which we are concerned, that is the 106 Account. A.I.D. is proposing to change the title of this account from Energy, Private Voluntary Organizations, and Selected Development Activities to Private Sector, Energy, and Private and Voluntary Organizations in order to more clearly describe the programs funded within the account. This account is critical to the successful implementation of A.I.D.'s principal emphases because it is uniquely suited to address cross-sectoral development problems not covered in other more narrowly focused functional accounts, and to mobilize non-United States government and LDC human and capital resources. Projects and program activities funded under this account are designed specifically to support: private enterprise development as well as efforts to reform government policies and institutions; the activities of private and voluntary organizations and cooperatives; science and technology efforts; promotion of human rights and democratic initiatives; and, research and technical assistance activities to alleviate energy constraints to development including encouraging private investment in energy infrastructure. This account is the main source of funding for A.I.D.'s efforts to encourage the development of private enterprise and promotion of competitive markets vital to stimulate and maintain economic growth. More than 40 percent of the funds requested will be devoted to private enterprise

A.I.D.'s private enterprise initiative reflects the Administration's belief that greater reliance on private enterprise, individual initiative and entrepreneurship, the preservation of competition, and market forces to guide economic progress is essential for sustained, equitable growth in the Third World. A major emphasis of the private enterprise initiative is to help the poor majority through the pursuit of macroeconomic policies that positively affect the labor market. The beneficiaries of many private sector projects are micro or small-scale enterprises or poor farmers. Employment generation is a major aspect of all our private enterprise projects.

Private Voluntary Organizations (PVOs)

A.I.D. program strategies seek a balance between economic growth and basic human needs objectives. We recognize the significant role that Private Voluntary Organizations (PVOs) play in Third World relief and development. A.I.D. provides funding for PVO activities from all of the programs described above. In a little over a decade, A.I.D. assistance to PVOs has increased dramatically - from $39 million in FY 1973 to a requested level of $290 million in FY 1988. In addition to this amount channeled through the DA Functional Accounts and ESF, A.I.D. will administer another $309 million in P.L. 480 Title II and Section 416 food commodities and related ocean freight costs to support PVO food-based programs overseas. The A.I.D./PVO partnership is based on a mutual commitment to overcoming problems of hunger, illiteracy, disease and premature death in the poorer countries of the world. At a time when A.I.D. resources are severely limited, PVO programs are an increasingly important part of A.I.D.'s effort to foster self-sustaining development in the Third World.

Environment

Finally, since our hope for long term economic growth in the developing world must depend on the sustainable use of natural resources, I would like to discuss some of the ways A.I.D. addresses these issues. First, and most importantly, a concern for the protection and management of all natural resources is and must continue to be an integral part of all of our development activities. Agricultural projects routinely involve the application of effective soil and water conservation techniques. Environmental assessments are carried out for all development activities which could adversely affect the natural resource base. Alternative project designs are examined and measures to mitigate potential problems are implemented when identified.

Secondly, we promote policies, projects and programs that will have a positive environmental influence. This compliments and goes beyond the first approach. We support projects to encourage tree planting to protect critical watersheds and agricultural lands; to promote the use of integrated pest management techniques; to develop systems to provide clean water and sanitation services; and to create the institutional capacity in developing countries to deal effectively with natural resource and environmental issues at all levels, from government environmental agencies to local extension services and indigenous non-governmental organizations.

Today, I would like to highlight a few of the Agency's most important activities related to natural resource management: the Africa Natural Resources management plan, biological diversity conservation activities, cooperation with other bilateral and multilateral donor agencies and our work with non-governmental and private voluntary organizations.

The Africa Bureau has now completed a Plan for supporting natural resource management in sub-Saharan Africa. The Plan calls for increased integration of natural resource concerns within our overall assistance program, in particular agricultural development and policy dialogue activities. The policy dialogue activities are especially important because environmental degradation can only be stopped if individuals have incentives to manage and protect critical natural resources. The Africa Plan concentrates efforts on priority problems and ecological regions where there is a good fit between the nature of the problem and US experience. It calls for increased support to PVOs and nongovernmental organizations (NGOs) to implement on the ground activities and to foster far greater coordination among donor agencies working in Africa.

A.I.D. is expanding its efforts to promote the conservation of biological diversity. A number of exciting new activities will be funded this year. In most cases A.I.D. has leveraged funds from NGOs and other organizations. An example of A.I.D.'s commitment to preserving biodiversity is the grants program of the Bureau for Asia/Near East, started in FY 1985. This program has supported biodiversity activities in India, Jordan, Morocco, Oman, Turkey and the Near East Region, and includes research on sea turtles, public environmental education campaigns, and training and production of environmental educational materials.

In Africa, new activities co-funded with NGOs are being planned in Madagascar and other regions of Africa to support the management of parks and protected areas, wetlands conservation and to strengthen wildlife management training centers. Activities supported under a grant to the World Wildlife Fund are strengthening links between wildlands conservation and rural development in both Latin America and Africa.

A.I.D. is also increasing agency cooperation with Multilateral Development Banks (MDBs) and bilateral donors on developing and implementing environmental assessment procedures in order to more effectively encourage and promote environmentally sound development projects.

A.I.D. will continue to actively encourage the development and use of PVOs and NGOs to carry out many of its natural resource activities. We feel that the capacity of these organizations in this area is particularly impressive. In Haiti a U.S. PVO is assisting local farmers in adopting soil conserving and fertility enhancing farming technologies to stop soil loss and to promote better use of reclaimed land. In Chad CARE and ARICARE are working in the Sahelian zone to assist destitute farmers and displaced populations to increase food production by improved water management, agroforestry and soil conservation techniques.

I believe that our FY 1988 Request will be able to achieve significant progress toward our most critical foreign policy objectives.

Twenty-five years of foreign aid have not only brought substantial accomplishments of which Americans can be proud, but have given us a wealth of experience and technology upon which to base the future.

To really appreciate what has happened in the last 25 years we need to be reminded of what the developed world was like then.

-one out of four children died before the age of five;
-only a small minority of children attended school;
-the Indian subcontinent faced massive starvation;
-parents could not choose the size of their families;
-life expectancy averaged about 40 years of age.

Over the past 25 years, American foreign aid has played a major role in changing these conditions.

-child mortality has been reduced by one half;
-smallpox has been eliminated from the world;
-the majority of children in developing countries enter primary school;
-safe and effective family planning methods are available;

-life expectancy has increased 10-20 years in the Third World;

-and, India is self-reliant in grains.

I am convinced that our Budget Request for FY 1988 will help us begin the achievement of even more significant gains in the next twenty-five years of foreign aid.

PREPARED STATEMENT OF GEN. PHILIP C. GAST

MR. CHAIRMAN, I AM PLEASED AGAIN THIS YEAR TO APPEAR BEFORE YOUR COMMITTEE TO TESTIFY ON BEHALF OF THE PRESIDENT'S FY1987 SUPPLEMENTAL AND FY1988 REQUEST FOR SECURITY ASSISTANCE FUNDING. SECRETARY WEINBERGER HAS ALREADY TESTIFIED ON THIS SUBJECT. THE SECRETARY MADE THE CASE THAT WE CANNOT CONTINUE AT THE RESOURCE LEVEL PROVIDED IN FY1987 WITHOUT GRAVE DAMAGE TO AMERICA'S INTERESTS. AS HE STATED, WE FACE A BUDGET CRISIS THAT HAS FAR-REACHING CONSEQUENCES FOR UNITED STATES FOREIGN POLICY AND DEFENSE STRATEGY. ALTHOUGH I SHALL CONCENTRATE ON THE PURELY MILITARY ASPECTS OF THE PRESIDENT'S REQUEST FOR FOREIGN ASSISTANCE, IT SHOULD BE NOTED THAT THE ENTIRE INTERNATIONAL AFFAIRS BUDGET IS BEING SEVERELY DAMAGED BY RECENT CUTS. THE PRESIDENT'S REQUEST FOR THE 150 ACCOUNT FOR FY1988 IS A MODEST ONE, WHICH RECOGNIZES THE NEED TO REDUCE OUR BUDGET DEFICIT. I WOULD LIKE TO ADD MY EMPHATIC AGREEMENT WITH THE STATEMENT THAT SECRETARY DERWINSKI JUST PRESENTED. THE PRESIDENT'S REQUEST IS, IN MY JUDGMENT, THE AMOUNT NEEDED IF THE UNITED STATES IS TO MAINTAIN ITS LEADERSHIP ROLE AND TO PROVIDE FOR OUR SECURITY.

CHART 1: INTERNATIONAL AFFAIRS BUDGET

THE UNITED STATES HAS LONG HAD AN INTEGRATED APPROACH TO THE WORLD, WHICH INCLUDES MILITARY, ECONOMIC, POLITICAL, DIPLOMATIC AND PURELY HUMANITARIAN ASPECTS. ON THIS FIRST CHART YOU CAN SEE THE ARRAY OF MAJOR FOREIGN POLICY INSTRUMENTS THAT WE EMPLOY IN

DEALING WITH AN INCREASINGLY INTERDEPENDENT WORLD. WHILE THE LEVEL OF FUNDS REQUESTED IN EACH ACCOUNT VARIES CONSIDERABLY, EACH OF THE FUNCTIONS IS IMPORTANT TO THE UNITED STATES. MILITARY AID, CONSISTING OF FMS CREDITS, MAP AND IMET, IS ONLY A PART OF THE WHOLE. WE NEED THE WHOLE REQUEST WITH ALL OF ITS PARTS SUFFICIENTLY FUNDED TO SERVE OUR BROAD NATIONAL GOALS, BOTH ECONOMIC AND SECURITY.

ALL OF US ARE DEDICATED TO HELPING REDUCE THE DEFICIT, BUT SOME CRITICS OF FOREIGN AFFAIRS FUNDING NOT ONLY CLAIM IT IS A GIVE AWAY PROGRAM, BUT HAVE ALSO POSTULATED A TOTAL COMPETITION BETWEEN DOMESTIC SPENDING AND MONEY SPENT FOR OUR SECURITY AND THE CONDUCT OF FOREIGN AFFAIRS. THIS IS A FALSE DICHOTOMY. OUR DOMESTIC WELFARE AND THE U.S. ECONOMY IS FUELED BY THE ENGINE OF FOREIGN TRADE, WHICH IS IN TURN GREATLY DEPENDENT ON WORLD AFFAIRS AND THE DEGREE OF STABILITY IN REGIONS WHERE WE TRADE. A RECENT STUDY BY THE ATLANTIC COUNCIL HAS DETAILED WHAT THIS MEANS IN STARK TERMS:

- IN THE LAST QUARTER OF A CENTURY U.S. FOREIGN TRADE GREW FROM LESS THAN TEN PERCENT TO MORE THAN 25 PERCENT OF OUR GROSS NATIONAL PRODUCT.
- 20 PERCENT OF U.S. INDUSTRIAL OUTPUT IS FOR EXPORT.
- ONE IN SIX AMERICAN PRODUCTION WORKERS' JOBS DEPEND ON INTERNATIONAL TRADE.
- 40 PERCENT OF U.S. FARMLAND PRODUCES FOR EXPORT.
- ABOUT ONE-THIRD OF U.S. CORPORATE PROFITS ARE GENERATED BY INTERNATIONAL ACTIVITIES.
- U.S. COMMERCIAL BANKS HAVE $130 BILLION IN LOANS OUTSTANDING TO DEVELOPING COUNTRIES.

THE FUNCTIONS REPRESENTED HERE ON THIS CHART ARE KEY TO AMERICA'S ABILITY TO DEAL WITH THE WORLD. THE U.S. GOVERNMENT SHOULD PROVIDE THE MEANS TO MEET OUR RESPONSIBILITIES IF WE ARE

GOING TO CONTINUE TO PROFIT BY THEM FOR THE BENEFIT OF OUR GREAT NATION.

THESE BENEFITS OF OUR OPEN RELATIONSHIPS WITH MANY REGIONS OF THE WORLD TAKE VARIOUS FORMS. THEY CAN SOMETIMES BE MEASURED IN CLEAR ECONOMIC TERMS. THOUGH WE CONDUCT MILITARY SALES ONLY IN SUPPORT OF OUR FOREIGN POLICY AND OUR DEFENSE OBJECTIVES, THESE ARE DEFINITE ECONOMIC BENEFITS, TO THE U.S. THAT I SHALL ADDRESS LATER IN MY STATEMENT. BUT AS SECRETARY WEINBERGER STATED, OUR OBJECTIVES ARE ON A MUCH BROADER PLANE. I WOULD LIKE TO REPEAT THESE OBJECTIVES BECAUSE THEY DESERVE EMPHASIS.

- FIRST, WE WANT TO PROMOTE DEMOCRACY BECAUSE DEMOCRATIC GOVERNMENTS ARE LESS LIKELY TO BECOME INVOLVED IN WARS OF AGGRESSION.
- SECOND, WE WANT TO MAINTAIN AN OPEN, STABLE WORLD ECONOMY AND FREE ENTERPRISE SO THAT WE CAN EXPAND OUR EXPORTS AND INVESTMENT.
- FINALLY, BY PROVIDING ASSISTANCE TO FRIENDS AND ALLIES, WE SEEK TO PREVENT REGIONAL CONFLICTS THAT THREATEN OUR INTERESTS, AND TO ENHANCE THE INTERNAL STABILITY OF FRIENDLY NATIONS. SHOULD CONFLICTS OCCUR, WE SEEK TO RESOLVE THEM BY HELPING OUR FRIENDS, RATHER THAN RESORT TO THE USE OF AMERICAN COMBAT FORCES.

CHART 2: THE PRESIDENT'S FY1988 BUDGET REQUEST

ALL TOO OFTEN THE DEBATE ON HOW TO DIVIDE UP THE PIE OF BUDGET RESOURCES REVOLVES AROUND THE SPLIT BETWEEN DOMESTIC PROGRAMS AND DEFENSE. AS THIS CHART SHOWS, INTERNATIONAL AFFAIRS FUNDING IS ONLY A TINY PROPORTION OF THE TOTAL REQUEST, AND TENDS TO BE SQUEEZED OUT IN THE LARGER DEBATE. CLEARLY, WITHOUT ADEQUATELY FUNDED DOMESTIC PROGRAMS, THE FUNDAMENTAL NEEDS OF OUR SOCIETY AND THE INDIVIDUAL WILL NOT BE MET. FAILURE TO DO SO WOULD NOT ONLY DEPRIVE OUR PEOPLE BUT WOULD NOT ALLOW US TO HAVE

ADEQUATE DEFENSES NOR CONDUCT SUCCESSFUL FOREIGN AFFAIRS. EACH OF THESE BROAD CATEGORIES OVERLAP AND COMPLEMENT EACH OTHER. SURELY ONE CANNOT BE INCREASED AT THE EXPENSE OF ANOTHER WITHOUT PAYING A PRICE, NOR CAN ONE OF THEM BE UNDULY WEAKENED FOR ALL THREE WILL BE JEOPARDIZED.

ALL THE INTERNATIONAL AFFAIRS FUNCTIONS SHOWN ON THE PREVIOUS CHART CONSUME ONLY 1.7 PERCENT OF THE TOTAL BUDGET REQUEST. THE MILITARY PORTION OF THE 150 ACCOUNT REPRESENTS ONLY ONE HALF OF ONE PERCENT. THIS IS A SMALL INVESTMENT THAT WILL RETURN SUBSTANTIAL DIVIDENDS TO THE AMERICAN PEOPLE. I KNOW THAT THERE WILL BE A DEBATE ABOUT THE PROPER PROPORTIONS OF THIS BUDGET. THERE ARE THOSE WHO WILL ARGUE THAT NO MORE CAN BE SPENT THAN WAS APPROPRIATED LAST YEAR FOR THE ENTIRE 150 ACCOUNT. CERTAINLY, THERE ARE THOSE WHO ARGUE THAT MILITARY ASSISTANCE SHOULD NOT BE INCREASED AT THE EXPENSE OF DOMESTIC PROGRAMS.

THE BALANCE OF MY PRESENTATION WILL BE DEVOTED TO PRESENTING A CASE FOR RETURNING OUR ASSISTANCE PROGRAM TO AT LEAST THE APPROPRIATED FY1986 LEVEL.

AS SECRETARY WEINBERGER STATED, GIVEN THE CONSTRAINTS IMPOSED BY GRAMM-RUDMAN-HOLLINGS TARGETS, THE ADMINISTRATION AGREED THIS YEAR TO A MODEST GROWTH IN THE DEFENSE BUDGET OF ONLY THREE PERCENT, WITH THE FULL UNDERSTANDING THAT WE WILL BE RELYING EVEN MORE ON OUR FRIENDS AND ALLIES AROUND THE WORLD. SO IT IS ESPECIALLY IMPORTANT THIS YEAR THAT CONGRESS SUPPORT THE PRESIDENT'S FY1988 REQUEST FOR SECURITY ASSISTANCE. THE INCREASE OF ONLY ABOUT $800 MILLION WILL BARELY BEGIN TO REPAIR THE DAMAGE DONE BY A TWO-YEAR CUT OF APPROXIMATELY 18 PERCENT IN REAL TERMS TO THE FMS CREDIT/MAP PROGRAM. IF FURTHER CONGRESSIONAL CUTS ARE MADE FOR FY1988, THEY WILL NOT SIMPLY BE BUDGET CUTS, BUT WILL FORCE DRASTIC CHANGES IN OUR FOREIGN AND DEFENSE POLICIES--CHANGES THAT A VAST MAJORITY OF CONGRESS WOULD BE VERY UNCOMFORTABLE WITH--TO COMPENSATE FOR REDUCED ALLIED CAPABILITIES, UNQUESTIONABLY A GREATER U.S. DEFENSE EFFORT WOULD BE REQUIRED.

CHART 3: INTERNATIONAL AFFAIRS FUNDING

ON THIS CHART, I HAVE PORTRAYED THE BUDGETARY HISTORY OF THE LAST THREE YEARS FOR THE INTERNATIONAL AFFAIRS ACCOUNT. WE HAVE DIVIDED THE BARS, AS YOU CAN SEE, INTO THE BASIC COMPONENTS OF THE CONDUCT OF FOREIGN AFFAIRS, INFORMATION AND EXCHANGE ACTIVITIES, ECONOMIC AID, AND MILITARY AID. I WANT TO MAKE TWO POINTS WITH THE CHART. FIRST, USING FY1985 AS A BASE LINE, THE ENTIRE FEDERAL BUDGET INCREASED BY ALMOST TWO PERCENT IN FY1987. BY CONTRAST FOREIGN AID WAS REDUCED 29 PERCENT IN FY1986 AND BY ANOTHER 11 PERCENT IN FY1987. FOR MILITARY ASSISTANCE ITS PORTION OF THE FEDERAL BUDGET WAS REDUCED FROM SEVEN TENTHS OF ONE PERCENT IN FY1985 TO ONE-HALF OF ONE PERCENT BY FY1987.

THE MILITARY PORTION CONSISTS OF FOREIGN MILITARY SALES CREDITS, MILITARY ASSISTANCE PROGRAM GRANTS AND INTERNATIONAL MILITARY EDUCATION AND TRAINING GRANTS. ALTHOUGH SOME INSIST THAT THE ECONOMIC SUPPORT FUND (ESF) IS MILITARY BECAUSE IT IS IN PRINCIPLE INTENDED FOR COUNTRIES WITH A SECURITY PROBLEM, IT IS NOT MILITARY IN ANY SENSE. IT CANNOT BE USED FOR THE PURCHASE OF MILITARY EQUIPMENT.

CHART 4: INTERNATIONAL AFFAIRS FUNDING

MR. CHAIRMAN, THIS CHART PORTRAYS THE BUDGET PERFORMANCE OF INTERNATIONAL AFFAIRS FUNDING. EACH BLUE BAR SHOWS A PERCENT OF THE FEDERAL BUDGET THAT FUNDED THE INTERNATIONAL AFFAIRS ACCOUNT FROM 1982 THROUGH 1987. THE RED BAR SHOWS A PERCENT OF THE BUDGET USED FOR MILITARY ASSISTANCE. AS YOU CAN READILY SEE, THE ADMINISTRATION AND CONGRESS HAVE KEPT THE RATIO OF MILITARY SPENDING TO THE TOTAL APPROPRIATED AT ABOUT THE SAME OVER THE YEARS. WE SHOW THIS CHART, MR. CHAIRMAN, BECAUSE THERE IS A COMMONLY HELD MISPERCEPTION THAT MILITARY ASSISTANCE HAS GROWN RAPIDLY OVER THE LAST FEW YEARS AT THE EXPENSE OF ECONOMIC ASSISTANCE. IT HAS NOT. AS YOU CAN SEE, IT HAS BEEN AT ABOUT ONE-HALF OF ONE PERCENT FOR THE LAST FIVE YEARS AND IS SO PROPOSED BY THE PRESIDENT FOR FY1988.

CHART 5: FOREIGN ASSISTANCE FUNDING

THIS CHART REFLECTS FOREIGN ASSISTANCE FUNDING WHICH IS A PART OF THE INTERNATIONAL AFFAIRS FUNDING. THE BLUE BAR REFLECTS THE PERCENT OF THE FEDERAL BUDGET USED TO FUND ECONOMIC AND HUMANITARIAN ASSISTANCE FOR EACH YEAR BEGINNING IN 1982. SIMILARLY, THE RED BAR SHOWS THE PERCENT USED TO FUND MILITARY ASSISTANCE. AT THE BOTTOM OF EACH YEAR YOU CAN SEE THE RATIO BETWEEN ECONOMIC AND HUMANITARIAN ASSISTANCE APPROPRIATED BY CONGRESS AND MILITARY ASSISTANCE. MR. CHAIRMAN, THIS CHART CLEARLY CONTRADICTS ANOTHER PERCEPTION HELD BY MANY THAT MILITARY ASSISTANCE HAS GROWN AT THE EXPENSE OF ECONOMIC ASSISTANCE. IT HAS NOT. THERE ARE THOSE, HOWEVER, WHO CONTINUE TO ARGUE THAT ESF IS REALLY MILITARY ASSISTANCE BECAUSE ITS ALLOCATION IS LINKED TO SECURITY AND POLITICAL CONSIDERATIONS. IN 1983, THE COMMISSION OF SECURITY AND ECONOMIC ASSISTANCE, KNOWN AS THE CARLUCCI COMMISSION, CONCLUDED THAT ESF WAS PURELY ECONOMIC ASSISTANCE. THE FAA STATES THAT "THE CONGRESS RECOGNIZES THAT UNDER SPECIAL ECONOMIC, POLITICAL, AND SECURITY CONDITIONS THE NATIONAL INTERESTS OF THE UNITED STATES MAY REQUIRE ECONOMIC SUPPORT FOR COUNTRIES IN AMOUNTS WHICH COULD NOT BE JUSTIFIED SOLELY UNDER DEVELOPMENT ASSISTANCE CRITERIA." THE ACT PROHIBITS USE OF ESF OR OTHER ECONOMIC ASSISTANCE FOR MILITARY, PARAMILITARY OR POLICE TRAINING PURPOSES. THE DEVELOPMENT ASSISTANCE COMMITTEE INCLUDES ESF WITHIN ECONOMIC ASSISTANCE. MR. CHAIRMAN, I BELIEVE A COUNTRY-BY-COUNTRY EXAMINATION WOULD SHOW THAT ESF IS JUDICIOUSLY USED FOR THE PURPOSES IT IS INTENDED. I KNOW OF NO COUNTRY THAT HAS USED ESF TO PROCURE MILITARY EQUIPMENT.

CHART 6: ACCOMPLISHMENTS

MR. CHAIRMAN, IT IS IMPORTANT TO UNDERSTAND WHERE WE HAVE BEEN, WHERE WE ARE NOW, AND WHAT IS REQUIRED TO GET BACK ON TRACK. FIRST, FROM FY1981 THROUGH FY1985 THE CONGRESS PROVIDED RISING APPROPRIATIONS AT IMPROVED TERMS TO MEET GOALS THAT

CONGRESS AND THE ADMINISTRATION AGREED UPON. FOR INSTANCE, CONSIDERABLE CONSENSUS BETWEEN THE ADMINISTRATION AND CONGRESS WAS ACHIEVED ON THE KEY ISSUES OF CENTRAL AMERICA, THE MIDDLE EAST, AND PAKISTAN. THE ADMINISTRATION THEN MADE MANAGEMENT IMPROVEMENTS AIMED AT MAKING MORE EFFICIENT USE OF APPROPRIATED FUNDS.

WITH THESE INSTRUMENTS IN HAND, THE ADMINISTRATION WORKED CLOSELY WITH FRIENDLY COUNTRIES TO EXPAND DIALOGUES, TO PLAN AND CARRY OUT PROGRAMS IN WAYS THAT RESPONDED TO COUNTRIES' DEFENSE NEEDS, AND TO ADDRESS ECONOMIC DIFFICULTIES CAUSED BY EFFORTS TO MEET THOSE NEEDS. THE NUMBER OF COUNTRIES RECEIVING ASSISTANCE GREW, AS DID THE NUMBER OF STUDENTS RECEIVING U.S. MILITARY TRAINING.

THESE PROGRAMS HAVE BEEN RESPONSIBLE FOR STRIKING RESULTS IN DETERRING OR RESOLVING CONFLICTS, IN IMPROVING BILATERAL RELATIONS, IN ENHANCING THE WORLDWIDE POSTURE OF U.S. FORCES AND, OVERALL, IN CONTRIBUTING TO A MORE SECURE WORLD. THE RESULTING WORLDWIDE PROGRAM ENCOURAGED A NEW FEELING OF CONFIDENCE IN THE UNITED STATES IN COUNTRIES THREATENED BY THE SOVIET UNION OR OTHERS. YET, MANY CHALLENGES TO OUR INTERESTS REMAIN, CHALLENGES WHICH CAN ONLY BE MET WITH RESOURCES THAT ALLOW U.S. COMMITMENT AND CONTINUITY FROM YEAR TO YEAR.

CHART 7: FMSCR & MAP FY1981-FY1987

SHOWN HERE IS THE HISTORY OF THE MILITARY PORTION OF SECURITY ASSISTANCE FUNDING OVER THE LAST SEVEN YEARS. WE HAVE PLACED ISRAEL AND EGYPT ON TOP TO EMPHASIZE THE RISING TREND IN CONTRAST TO A SEVERE DOWNWARD TREND FOR THE REST OF THE WORLD. IN RECOGNITION OF FOREIGN POLICY NEEDS AND THE NEED TO DEFEND THE FREE WORLD, FUNDING ROSE STEADILY FROM FY1981 THROUGH FY1984. THE RISE WAS MOSTLY IN EUROPE, EGYPT, ISRAEL AND PAKISTAN. GROWTH WAS SIGNIFICANT ELSEWHERE, ALTHOUGH THE PROGRAMS ARE MUCH SMALLER. TO OBTAIN MORE CONCESSIONALITY, THE FY1985 FMS CREDIT

PROGRAM WAS PUT ALL ON-BUDGET. THE FUNDING WAS DROPPED BY $688 MILLION TO MAKE THIS POSSIBLE.

IN FY1986, EGYPT AND ISRAEL WERE RESTORED NEARLY TO PREVIOUS LEVELS, BUT THE SIZE OF THE TOTAL APPROPRIATION WAS NOT RESTORED, AND THIS DEPRESSED FUNDS FOR THE REST OF THE WORLD. THEN AGAIN IN FY1987, EGYPT AND ISRAEL WERE INCREASED SLIGHTLY, WHILE THE SIZE OF THE TOTAL APPROPRIATION WAS REDUCED APPROXIMATELY 14 PERCENT FROM ACTUAL FY1986 LEVELS. WHAT IS OF TREMENDOUS CONCERN TO US IS THE COMPRESSION OF THE RESOURCES PROVIDED TO THE REST OF THE WORLD WHERE WE HAVE VAST AND IMPORTANT INTERESTS. THE REST OF THE WORLD HAD TO ABSORB NEARLY A 40 PERCENT REDUCTION.

CHART 8: IMPACT OF EARMARKS

THESE TWO PIE-CHARTS REFLECT CONGRESSIONAL ACTION IN FY1987 TO EARMARK ISRAEL, EGYPT, TURKEY, GREECE AND PAKISTAN. THESE ALLOCATIONS CONSUME ALMOST 86 PERCENT OF OUR TOTAL MILITARY ASSISTANCE RESOURCES IN FY1987. WE ARE NOT SUGGESTING THESE COUNTRIES DO NOT NEED THE RESOURCES; THEY DO. TURKEY, IN PARTICULAR, NEEDS SUBSTANTIALLY MORE. BY FAR THE MOST IMPORTANT MESSAGE OF THIS CHART IS THAT IN THE REST OF THE WORLD BEYOND THE EARMARKED COUNTRIES, 19 COUNTRIES WERE CUT MORE THAN 50 PERCENT AND OTHERS 100 PERCENT. TO GIVE THE CONGRESS CREDIT, IT WORKED HARD IN THE CONTINUING RESOLUTION TO GIVE US HIGHER QUALITY AID. THIS EFFORT RESULTED IN MORE MAP--$900 MILLION, UP FROM $798 MILLION IN FY1986. BUT WHAT CONGRESS DID WAS TO CHANGE CREDITS TO MAP RATHER THAN APPROPRIATE MORE MAP.

CHART OFF

LAST YEAR THERE WAS RELATIVELY LITTLE DIALOGUE BETWEEN THE ADMINISTRATION AND CONGRESS ON THE IMPORTANCE TO THE UNITED STATES OF INDIVIDUAL COUNTRIES AND REGIONS. JUDGEMENTS WERE MADE BY VARIOUS COMMITTEES ON THE NUMBERS FOR EACH BUDGET FUNCTION

WITHOUT MUCH REGARD FOR THE DETAIL. THE PROCESS DID NOT SERVE US.

CHART 9: REDUCTIONS FROM FY1986

SECRETARY WEINBERGER IN HIS APPEARANCE BEFORE THE FULL HOUSE FOREIGN AFFAIRS COMMITTEE REVIEWED THE IMPACT OF THE RECENT CUTS TO MILITARY AID OVER THE LAST TWO YEARS. I WOULD LIKE TO EMPHASIZE THAT THE IMPACT HAS BEEN SEVERE--AS THIS MAP SHOWS. THIS MAP SHOWS THE WORLDWIDE ALLOCATIONS OF THE FY1987 APPROPRIATIONS. EACH PIE CHART IS SIZED RELATIVE TO ACTUAL FY1986 LEVELS, WHICH THEMSELVES WERE LOWER THAN FY1985 LEVELS. FOR A SENSE OF THE SCALE OF THE PIE CHARTS, RECALL THAT ISRAEL REPRESENTS $1.8 BILLION AND NORTH YEMEN ABOUT $2 MILLION. THE GREEN SLICES REPRESENT INCREASES, WHILE THE RED SLICES INDICATE REDUCTIONS FROM FY1986.

GIVEN THAT 86 PERCENT OF THE APPROPRIATION WAS EARMARKED, THE ADMINISTRATION FACED PAINFUL CHOICES DURING THE ALLOCATION PROCESS. THERE WAS NO ACCEPTABLE SOLUTION. THE RESOURCES SIMPLY WERE NOT THERE. AFTER EXTENSIVE AND AGONIZING EXAMINATION, WE CONCLUDED THAT WITH THE EXCEPTION OF KOREA, WE COULD NOT TERMINATE ASSISTANCE TO FRIENDS AND ALLIES. INSTEAD WE CHOSE TO WORK TO SUSTAIN AMERICA'S FOREIGN POLICY AND DEFENSE STRATEGY TO THE EXTENT WE COULD.

BEGINNING AT THE RIGHT AND WORKING WESTWARD, THE DECISION TO ZERO OUT KOREA WAS DIFFICULT. YET THIS IS A TIME WHEN NORTH KOREA IS RAPIDLY MODERNIZING ITS FORCES AND IMPROVING ITS READINESS WITH RENEWED SOVIET SUPPORT. OVERALL, THE EAST ASIA PACIFIC REGION WAS REDUCED BY 70 PERCENT, EVEN THOUGH WE SEE RAPIDLY GROWING SOVIET MILITARY NAVAL CAPABILITIES AND A MAJOR SOVIET BUILD-UP AT CAM RANH BAY. WE ALLOCATED ONLY $50 MILLION TO THE PHILIPPINES FUNDING EVEN THOUGH THERE IS A CLEAR CONSENSUS BETWEEN THE ADMINISTRATION AND CONGRESS ON THE NEED TO SUSTAIN THE NEW ARMED FORCES OF THE PHILIPPINES. THE NEW PHILIPPINES

ARMED FORCES HAVE GONE A LONG WAY IN REFORMING AND NEED MORE RESOURCES FOLLOWING THE TERMINATION OF THE CEASE-FIRE AGREEMENT. BUT GIVEN THE SMALL AMOUNT OF RESOURCES AVAILABLE, FULLY FUNDING THE PHILIPPINES WOULD HAVE IN FACT MEANT ZEROING OUT MOST COUNTRIES IN SUB-SAHARA AFRICA OR REDUCING CENTRAL AMERICA TO DANGEROUS PROPORTIONS. THAILAND, WHICH FACES A VIETNAMESE THREAT ON ITS BORDERS AND WHICH HAS STRONG SUPPORT IN CONGRESS FOR ITS POSITION, WAS REDUCED BY 41 PERCENT.

THE SUB-SAHARAN COUNTRIES WERE CUT IN AGGREGATE SOME 55 PERCENT. WE TRIED TO MAINTAIN BILATERAL PROGRAMS EVEN AT RADICALLY REDUCED LEVELS. IMPORTANT ACCESS COUNTRIES ON THE HORN OF AFRICA SUFFERED SEVERE REDUCTIONS. ONE OF THE MOST DRASTIC REDUCTIONS WAS SOMALIA, WHICH WAS REDUCED ALMOST 61 PERCENT AFTER BEING CUT BY 42 PERCENT THE PREVIOUS YEAR. I THINK WE CAN ALL APPRECIATE THE IMPACT IN SUCH A POOR COUNTRY THAT HAS CAST ITS FUTURE WITH THE WEST AND THE UNITED STATES. KENYA WAS ALSO CUT BY ALMOST 61 PERCENT AND SUDAN BY 69 PERCENT. WE CANNOT CONTINUE TO CUT THESE IMPORTANT PROGRAMS WITHOUT EXPECTING SERIOUS HARM TO THEIR MILITARY PROGRAMS, MAKING IT EVEN MORE DIFFICULT FOR THEIR LEADERS TO COOPERATE WITH US.

AS WE TURN TO NEAR EAST-SOUTH ASIA, NOTICE THAT OMAN, ANOTHER ACCESS COUNTRY, RECEIVED NO CREDITS THIS YEAR AND NORTH YEMEN RECEIVED ONLY $1 MILLION. WE HAVE IMPORTANT INTERESTS IN THIS REGION, BUT WE ARE UNABLE TO APPLY THE NEEDED RESOURCES. JORDAN, AS YOU KNOW, IS AN IMPORTANT COUNTRY FOR MIDDLE EAST PEACE AND A RELIABLE FRIEND OVER THE LAST THREE DECADES. YET IT WAS REDUCED CONSIDERABLY BELOW THE LEVELS REQUIRED SIMPLY TO SUSTAIN AMERICAN EQUIPMENT--A CUT OF ALMOST 50 PERCENT. THE SYRIAN THREAT REMAINS AND IS INTENSIFIED BY THE FACT THAT THE JORDANIAN ARMED FORCES OBSOLESENCE IS GROWING.

JORDAN HAS URGENT LEGITIMATE MODERNIZATION REQUIREMENTS. BECAUSE OF PREVIOUS OPPOSITION IN CONGRESS TO HELPING, JORDAN HAS FELT IT NECESSARY TO PROCURE AIR DEFENSE SYSTEMS FROM THE SOVIET

UNION. CERTAINLY THIS IS NOT IN AMERICA'S OR JORDAN'S BEST INTEREST AT ALL. WE SEE TOO MANY SOVIET WEAPONS IN THE REGION AND NONE OF THEM ARE FOR THE GOOD OF ISRAEL. MR. CHAIRMAN, JORDAN IS ONLY ONE EXAMPLE OF MY CONCERN THAT OUR FRIENDS, IN DESPERATION, WILL TURN TO THE SOVIET UNION IF WE DO NOT PROVIDE ADEQUATE FUNDING OR IF CONGRESS REMAINS DETERMINED TO OPPOSE LEGITIMATE DEFENSE NEEDS.

TUNISIA, LONG A DEPENDABLE FRIEND, AND FACING RADICAL LIBYA, WAS REDUCED BY 49 PERCENT. MOROCCO, OUR FRIEND FOR 200 YEARS AND ANOTHER ACCESS COUNTRY, NOW HAS A PROGRAM SUBSTANTIALLY BELOW WHAT IT NEEDS TO SUSTAIN READINESS.

YOU CAN READILY SEE THE SEVERE REDUCTIONS WE HAD TO IMPOSE IN THE SOUTHERN TIER OF NATO. AT THE EARMARKED LEVEL OF $490 MILLION FOR TURKEY--A COUNTRY OF VAST STRATEGIC IMPORTANCE TO THE ALLIANCE AND TO THE U.S. ITSELF--CANNOT BEGIN URGENTLY REQUIRED AND PLANNED MODERNIZATION PROGRAMS. IT IS ONLY ENOUGH TO PROTECT THEIR O&M AND ONGOING PROGRAMS FOR ONE YEAR. GREECE, TOO, SUFFERED CUTS. WE COULD OFFER SPAIN ONLY $105 MILLION OF CONCESSIONAL CREDITS INSTEAD OF THE PLANNED $400 MILLION MARKET RATE CREDITS. PORTUGAL WAS REDUCED OVER 27 PERCENT, DESPITE ONGOING MODERNIZATION AND THE BUILDING OF THE "NATO" BRIGADE. WHEN YOU CONSIDER PORTUGAL, PLEASE RECALL HOW IMPORTANT THE STRATEGICALLY LOCATED AZORES ARE TO THE DEPLOYMENT OF OUR OWN FORCES.

LASTLY, IS LATIN AMERICA. HERE WE WERE ABLE LARGELY TO PROTECT EL SALVADOR AND HONDURAS. THE REST OF THE REGION WAS REDUCED BY 36 PERCENT FROM FY1986 LEVELS, WHICH WERE ALREADY TOO LOW. WE HAVE WANTED TO BEGIN SERIOUS DRUG RELATED PROGRAMS, BUT LACKED THE TOTAL MONEY FOR MILITARY ASSISTANCE TO FUND THIS IMPORTANT OBJECTIVE ADEQUATELY.

BEFORE I LEAVE THIS CHART, MR. CHAIRMAN, I WANT TO SAY THAT ALL OF US HERE TODAY SHOULD REALIZE THAT THE RELIABILITY OF THE UNITED STATES AS A PARTNER AND A SOURCE OF STRENGTH IS NOW BEING

QUESTIONED. SOME OF OUR TRADITIONALLY MODERATE FRIENDS CANNOT HELP BUT RECONSIDER THEIR RELATIONS WITH MORE RADICAL STATES. I HAVE ALREADY SPOKEN OF JORDAN,BUT THERE ARE OTHERS. WE MAY SEE SOME AGGRESSORS REOPEN CONFLICTS WHICH HAD BEEN CONSTRAINED. OUR ABILITY TO INFLUENCE EVENTS WILL BE SERIOUSLY AFFECTED AND THE REPERCUSSIONS WILL BE SEVERE UNLESS THE UNITED STATES PROVIDES THE RESOURCES AND EQUIPMENT REQUIRED TO SHORE UP DETERRENCE.

CHART 10: FMS CREDITS AND MAP FY1981-FY1988

IN THIS CHART WE SHOW HOW THE BUDGET PROPOSES TO ADDRESS THE SEVERE SHORTFALLS I HAVE DESCRIBED, THROUGH A $1.3 BILLION SUPPLEMENTAL FOR FOREIGN AFFAIRS OF WHICH $461 MILLION IS FOR MILITARY ASSISTANCE. THE BAR BEHIND THE ONE REPRESENTING THE FY1987 APPROPRIATION SHOWS HOW THE FY1987 SUPPLEMENTAL ADDS TO THE FY1987 APPROPRIATION. WE PUT HIGH VALUE ON ADDING BACK $50 MILLION TO THE PHILIPPINES. A LARGE PORTION OF THE INCREASE IS TO STRENGTHEN NATO--$355 MILLION.

THE FY1988 REQUEST IS IN FACT A MODEST REQUEST SENSITIVE TO THE TIGHT BUDGET ATMOSPHERE. WHILE IT ASKS FOR $811 MILLION MORE FOR FMS CREDITS AND MAP THAN WE GOT IN FY1987, IT IS 13.7 PERCENT LESS THAN THE PRESIDENT'S FY1987 REQUEST AND APPROXIMATELY THE SAME AS FY1986 ACTUAL LEVELS. IT ATTEMPTS TO CORRECT SHORTFALLS IN THE SAME AREAS THAT THE FY1987 SUPPLEMENTAL ADDRESSES; THREE-QUARTERS OF THE PROPOSED INCREASE IS FOR THE NATO SOUTHERN REGION COUNTRIES.

CHART 11: LATIN AMERICA

ON EACH OF THE REGIONAL CHARTS, THERE IS A LEGEND ON THE LOWER LEFT HAND THAT IS COLOR CODED TO SHOW THE SOVIET OR SOVIET-SUPPORTED THREATS AND COUNTRIES FACING CONFLICT. SHOWN ALSO IS WHERE WE HAVE WHAT IS COMMONLY REFERRED TO AS BASE RIGHTS AND ACCESS, OR WHERE THE DRUG PROBLEM IS GROWING, AND WHERE WE SUPPORT DEMOCRACY. ON THE OPPOSITE SIDE OF THE CHART ARE SHOWN

THE FY1987 ALLOCATIONS, THE PROPOSED SUPPLEMENTAL AND THE PRESIDENT'S REQUEST FOR FY1988.

IN LATIN AMERICA, THE THREATS ARE ONLY TOO WELL KNOWN--THE DESTABILIZING EFFORTS OF CUBA AND NICARAGUA, INSPIRED AND SUPPORTED BY THE SOVIET UNION. EVERY COUNTRY IN CENTRAL AMERICA IS THREATENED. WE ALSO CONFRONT THE INCREASING PROBLEM OF NARCOTICS TRAFFICKING AND ASSOCIATED VIOLENCE, AS SHOWN IN YELLOW. THE FY1987 SUPPLEMENTAL AND FY1988 BUDGET REQUESTS ARE NEEDED SIMPLY FOR COUNTRIES TO PRESERVE PROGRESS MADE TO DATE. IN THE FY1988 REQUEST WE HAVE ADDED $5 MILLION TO EL SALVADOR, AND $20 MILLION TO HONDURAS. WE HAVE ALSO ASKED FOR $17.5 MILLION FOR EACH IN THE SUPPLEMENTAL. TO CONFRONT THE DRUG PROBLEM WE HAVE ADDED A TOTAL OF $18 MILLION TO BOLIVIA, COLOMBIA, ECUADOR AND PERU--NOT MUCH GIVEN THE CIRCUMSTANCES, BUT ALL THAT CAN BE PROVIDED THIS YEAR.

WE MUST NOT BECOME COMPLACENT ABOUT CENTRAL AMERICA, THE CARIBBEAN, AND THE ANDEAN NATIONS. THESE AREAS CONTINUE TO SUFFER SEVERE ECONOMIC AND SECURITY CRISES. FUNDAMENTAL ECONOMIC AND SOCIAL PROBLEMS REMAIN MAJOR CAUSES OF INTERNAL UNREST, PROVIDING A FERTILE ATMOSPHERE FOR EXTERNALLY-INSPIRED SUBVERSION.

FROM THE MILITARY POINT OF VIEW, CENTRAL AMERICA IS CRITICAL TO U.S. STRATEGIC INTERESTS, AND THE VERY EXISTANCE OF CUBA AND ITS SOVIET-SUPPORTED FORCES ARE OF GREAT CONCERN. NEITHER CAN WE TOLERATE NICARAGUA BECOMING ANOTHER CUBA. WE ARE CONCERNED ABOUT THE PRESENT AND FUTURE DEFENSE OF THE PANAMA CANAL, A VITAL LINK IN THE USE OF OUR SEA LANES FOR THE DEFENSE OF EUROPE AND PROTECTION OF U.S. ECONOMIC AND SECURITY INTERESTS IN THE PACIFIC.

NEARLY ALL THE MAJOR COUNTRIES HAVE MOVED AWAY FROM MILITARY TO DEMOCRATIC GOVERNMENTS. IT REMAINS IMPORTANT TO THE UNITED STATES TO PROMOTE THESE DEMOCRACIES WITH THE HELP OF LIMITED

SECURITY ASSISTANCE TO SUPPORT THEIR MILITARIES TO PURSUE A PROFESSIONAL COURSE.

CHART 12: THE MEDITERRANEAN LITTORAL

TURNING TO THE MEDITERRANEAN LITTORAL, WE HAVE HERE A CONJUNCTION OF INTERLOCKING STRATEGIC CONCERNS OF CRITICAL IMPORTANCE TO AMERICA. PERHAPS NO OTHER REGION HOLDS AS GREAT A POTENTIAL FOR THE INVOLVEMENT OF U.S. FORCES IN REGIONAL CONTINGENCIES AND THE ESCALATION OF REGIONAL CONFLICTS TO A SUPERPOWER CONFRONTATION.

OF VITAL CONCERN IS THE PROMOTION OF PEACE IN THE MIDDLE EAST. PRESERVING THE INDEPENDENCE AND SECURITY OF ISRAEL, FREE PASSAGE THROUGH THE SUEZ CANAL LIFELINE OF EUROPE AND NORTH AFRICA, AND PROMOTING STABILITY THROUGHOUT THE OIL-RICH MIDDLE EAST HAVE LONG BEEN CENTRAL TENETS OF U.S. FOREIGN POLICY.

LIBYA'S INCESSANT AND HEAVILY-ARMED ADVENTURISM IN NORTH AFRICA THREATENS THE SECURITY OF TUNISIA AND MOROCCO, TRADITIONAL FRIENDS OF THE U.S. TUNISIA REQUIRES ADDITIONAL FUNDING IN FY1988. MOROCCO IS IMPORTANT BECAUSE OF ITS CONTINUOUS CLOSE RELATIONSHIP WITH THE U.S. AND THE VALUABLE ACCESS IT ACCORDS AMERICAN FORCES. CONTAINING LIBYA'S ACTIVE AGGRESSION AGAINST CHAD IS ESSENTIAL NOT ONLY TO THE SOVEREIGNTY OF CHAD BUT TO PREVENTING LIBYA FROM ESCALATING ITS AGGRESSION AGAINST OTHER STATES IN THE REGION. U.S. SECURITY ASSISTANCE TO CHAD IS AN IMPORTANT COMPLEMENT TO FRANCE'S EXTENSIVE AID.

THREE-QUARTERS OF THE ADDITIONAL $811 MILLION IN THE FY1988 REQUEST IS FOR NATO COUNTRIES, AND OF THAT, WE ARE REQUESTING AN ADDITIONAL $295 MILLION FOR TURKEY AND AN ADDITIONAL $92 MILLION FOR GREECE. OUR REQUEST FOR SPAIN AT $265 MILLION IS STILL $135 MILLION SHORT OF THE $400 MILLION "BEST EFFORTS" COMMITMENT IN CONNECTION WITH OUR CURRENT DEFENSE AND ECONOMIC AGREEMENT.

THE U.S. PROVIDES SECURITY ASSISTANCE TO GREECE, TURKEY, SPAIN, AND PORTUGAL TO HELP THEM CONTRIBUTE TO THE COMMON DEFENSE

AND TO HELP ASSURE CONTINUED AMERICAN ACCESS TO KEY FACILITIES IN THE REGION. OUR SECURITY ASSISTANCE CONTRIBUTION IS ALL THE MORE IMPORTANT THIS YEAR BECAUSE OF ONGOING OR IMMINENT DEFENSE AND ECONOMIC AGREEMENT NEGOTIATIONS IN SPAIN AND GREECE. ALTHOUGH EACH OF THE NATO COUNTRIES IS IMPORTANT, I THINK IT IS WORTHWHILE TO EMPHASIZE TURKEY, AS SHOWN ON THE NEXT CHART.

CHART 13: TURKEY AT STRATEGIC CROSSROADS

CONGRESS EARMARKED TURKEY AT $125 MILLION BELOW THE FY1986 LEVEL, AND $200 MILLION BELOW THE FY1985 LEVEL. THE FINAL RESULT OF FY1987 ACTIONS WAS A PROGRAM OF $490 MILLION, WHICH SIMPLY MEANT SUSTAINING ONGOING PROGRAMS WITH NO RESOURCES TO MEET URGENT ADDITIONAL MODERNIZATION NEEDS.

TURKEY LIES AT THE NEXUS OF SEVERAL OF OUR REGIONAL STRATEGIES. IT IS OUR ONLY NATO ALLY WITH A SUBSTANTIAL BORDER WITH THE SOVIET UNION. ITS EASTERN AND SOUTHERN BORDERS ADJOIN UNPREDICTABLE AND POTENTIALLY UNSTABLE COUNTRIES, A FACTOR WHICH WE MUST CONSIDER WHEN SHAPING OUR MIDEAST POLICY. THE TURKS ARE AMONG THE BEST PLANNERS OF THEIR DEFENSE EFFORTS AND THEIR PROGRAM IS ONE OF THE MOST CAREFULLY STRUCTURED TO MEET NATO REQUIREMENTS. THE $785 MILLION REQUEST FOR TURKEY IS OF PARAMOUNT IMPORTANCE FOR MODERNIZATION TO OFFSET THE LONG-STANDING OBSOLESENCE OF ITS FORCES. IT MAKES PROGRAMMATIC SENSE AND WOULD SEND THE RIGHT SIGNAL TO OUR ALLIES AND ADVERSARIES. IT IS ALSO IMPORTANT TO TAKE INTO ACCOUNT THAT TURKEY HOSTS MAJOR U.S. INSTALLATIONS, INCLUDING AIR BASES, MAJOR INTELLIGENCE COLLECTION BASES, SEISMOGRAPHIC DETECTION FACILITIES, NAVIGATION FACILITIES, NATO EARLY WARNING RADAR SITES AND OTHER INVALUABLE FACILITIES THAT ARE CRUCIAL TO U.S. FORCE PROJECTION AND NATO CRITICAL REQUIREMENTS.

CHART 14: SUB-SAHARAN AFRICA

IN AFRICA, THE U.S. HAS CHIEFLY ECONOMIC ASSISTANCE PROGRAMS, BUT WE STILL HAVE AN IMPORTANT POLITICAL INTEREST IN

MAINTAINING STRONG MILITARY-TO-MILITARY TIES. FOR MANY OF THE COUNTRIES, WE DO THIS THROUGH IMET AND SMALL CIVIC ACTION, AFRICAN COASTAL SECURITY, AND HEALTH PROGRAMS. THESE AIM AT ENGAGING THE MILITARIES IN THIS REGION IN MODEST, BUT BENEFICIAL PROJECTS. IN FY1987 WE CHOSE NOT TO ZERO OUT MOST OF THESE COUNTRIES. THE MONEY SAVED WOULD HAVE BEEN TOO LITTLE TO HELP ANY OF OUR LARGE PROGRAMS, AND WE BELIEVED THE POLITICAL COST WOULD HAVE BEEN TOO HIGH. NEVERTHELESS, IN FY1987 WE FUNDED THEM AT ONLY 37 PERCENT OF THE FY85 LEVEL. THE ONLY MAJOR RESTORATION OVER FY1987 ALLOCATION ARE FOR THE SOUTHWEST ASIA ACCESS COUNTRIES ON THE HORN--SUDAN, SOMALIA, AND KENYA. ZAIRE IS IMPORTANT TOO. ZAIRE HAS HELPED IN CHAD AND IS DEEPLY WORRIED ABOUT SOVIET AND CUBAN SUPPORTED FORCES IN ANGOLA. COLLECTIVELY, THE MILITARY ASSISTANCE INCREASE REQUESTED FOR AFRICA OVER FY1987 LEVELS AMOUNTS TO ONLY $30 MILLION, EXCLUDING KENYA, SOMALIA, AND SUDAN.

CHART 15: SOUTHWEST ASIA

WITH THE IRAN-IRAQ WAR HEATING UP, THE LONG-EXPRESSED CONCERN OF THE ENTIRE AREA WITH THE SPREAD OF THAT WAR HAS INTENSIFIED. WE HAVE REFLECTED THIS BY BLUE AND WHITE HATCHING. THESE COUNTRIES FEEL THEMSELVES STRONGLY THREATENED AND LOOK TO THE U.S. FOR HELP. OUR PROPOSED FINANCING PROGRAMS, OF COURSE, ARE CHIEFLY WITH COUNTRIES WITH WHICH WE HAVE ACCESS OR PRE-POSITIONING AGREEMENTS. REGRETTABLY, OMAN'S FMS CREDITS HAD TO BE ZEROED OUT IN 87. SUDAN, SOMALIA AND KENYA REQUIRE RESTORATION OF RESOURCES. OUR PROPOSED PROGRAMS IN FY88 ARE NOT SUFFICIENT FOR THE COUNTRY PROGRAMS WE HAD PREVIOUSLY PLANNED WITH THEM, ESPECIALLY IN THE CASE OF SOMALIA. THE PROGRAMS ARE ONLY INTENDED TO SUPPORT OUR POLICIES AT A MIMIMUM LEVEL AND MAINTAIN ACCESS.

SOUTHWEST ASIA IS SO IMPORTANT FOR THE WESTERN WORLD'S CONCERN FOR CONTINUED ACCESS TO THE VAST OIL RESERVES IN THE REGION. IT IS ESSENTIAL THAT THE U.S. ASSIST THOSE COUNTRIES IN

PROVIDING FOR THEIR OWN DEFENSE. WE CONTINUE TO ENCOURAGE THEM TO GRANT ACCESS TO FACILITIES TO OUR FORCES IN A CONTINGENCY SHOULD OUR ASSISTANCE BE REQUESTED. PAKISTAN IN THE EAST, OMAN AND NORTH YEMEN IN THE CENTER, AND KENYA, SOMALIA AND SUDAN TO THE WEST ARE BESET BY SERIOUS ECONOMIC PROBLEMS AND HOSTILE FOREIGN THREATS. THE CONTINUED SOVIET OCCUPATION OF AFGHANISTAN THREATENS THE SECURITY OF PAKISTAN AND SOUTHWEST ASIA. PAKISTAN ALSO IS SHOULDERING AN ENORMOUS BURDEN BY PROVIDING FOR THE THREE MILLION REFUGEES FROM THE SOVIET WAR IN AFGHANISTAN, AND DESERVES OUR FULL SUPPORT.

CHART 16: EAST ASIA PACIFIC

THE REGION HIT HARDEST IN PERCENTAGE TERMS IN FY1987 WAS EAST ASIA. WE DO NOT PROPOSE TO FUND KOREA IN FY1988. WE ARE PROPOSING ONLY A $10 MILLION INCREASE FOR THAILAND, BUT THE PROGRAM IS NOW ALL GRANTS. MR. CHAIRMAN, THE DECISION TO ALLOCATE ONLY $50 MILLION TO THE PHILIPPINES IN FY1987 WAS, TO SAY THE LEAST, DIFFICULT. WE WERE APPRECIATIVE OF CONGRESS' SUPPORT FOR THE SUPPLEMENTAL DURING LATE FY1986. WE WANTED TO ALLOCATE MORE, BUT THE RESOURCES WERE NOT THERE. TO HAVE ALLOCATED ANOTHER $50 MILLION TO THE PHILIPPINES WOULD HAVE RESULTED IN THE DISCONTINUANCE OF MOST OF OUR PROGRAMS IN AFRICA OR MAJOR REDUCTIONS IN CENTRAL AMERICA. THE AQUINO GOVERNMENT, AND IN PARTICULAR, THE NEW PHILIPPINES ARMED FORCES, ARE GREATLY DISAPPOINTED AND QUESTION OUR COMMITMENT. WE MUST HAVE SUPPORT FOR ALL OF THE SUPPLEMENTAL OF WHICH $50 MILLION FOR THE PHILIPPINES IS OF EXTREME IMPORTANCE.

WE GENERALLY SUPPORT THE ASEAN NATIONS' SECURITY GOALS AND WISH TO KEEP SOVIET ACCESS AND INFLUENCE STRICTLY LIMITED IN THE REGION. OUR SUPPORT FOR THAI SECURITY AGAINST VIETNAMESE AGGRESSION IS BASED ON A LONG HISTORY OF U.S. AND THAI COOPERATION. BUT WE ALSO SUPPORT ASEAN'S CAMBODIAN STRATEGY FOR THE WITHDRAWAL OF VIETNAM FORCES AND THROUGH OUR SUPPORT FOR THAILAND'S TERRITORIAL INTEGRITY AND STABILITY.

CHART OFF

MR. CHAIRMAN, AN IMPORTANT AND SOMETIMES CONTROVERSIAL ISSUE IS OUR ARMS TRANSFER POLICY. WE NEED TO CONTINUE TO MEET THE LEGITIMATE REQUESTS FOR THE SALE OF MILITARY EQUIPMENT TO FRIENDS AND ALLIES. IN THE PAST WE HAVE SEEN THAT OUR FAILURE TO PROVIDE EQUIPMENT TO FRIENDS SIMPLY FORCES THEM TO SEEK THE NEEDED EQUIPMENT ELSEWHERE, WHETHER FROM THE SOVIET UNION OR A WESTERN SUPPLIER. SUCH DENIALS ON OUR PART HAVE SEVERAL BAD RESULTS FOR AMERICAN INTERESTS AND OBJECTIVES. FIRST, OUR FRIENDS AND ALLIES BEGIN TO SEE THE UNITED STATES AS AN UNRELIABLE PARTNER. SECOND, WE BEGIN TO ERODE CLOSE MILITARY-TO-MILITARY RELATIONS THAT HAVE SOMETIMES BEEN BUILT UP OVER DECADES. BY DENYING LEGITIMATE REQUESTS, WE RISK ERODING THAT GOVERNMENT'S ABILITY TO COOPERATE WITH US. WE LOSE THE BENEFIT OF THE STRICT CONTROLS, THE MOST STRINGENT IN THE WORLD, THAT WE ALWAYS PLACE ON THE USE OF MILITARY EQUIPMENT. WE HAVE AN EXCELLENT RECORD IN THIS REGARD. EVEN IN THE VOLATILE MIDDLE EAST, NO ARAB COUNTRY HAS ATTACKED ISRAEL USING AMERICAN EQUIPMENT, AND I KNOW OF NO OTHER PLACE WHERE U.S. EQUIPMENT HAS BEEN USED OFFENSIVELY. OTHERS CANNOT MAKE SUCH A CLAIM. WE MUST ALSO UNDERSTAND THAT ILL-FOUND REFUSALS TO PROVIDE EQUIPMENT NEEDED FOR LEGITIMATE DEFENSE WORSENS OUR BALANCE OF TRADE POSITION, MEANS LESS JOBS IN AMERICA AND REDUCES OUR PRODUCTION BASE. WE ALSO MISS THE OPPORTUNITY OF LOWER WEAPON SYSTEM COST FOR OUR FORCES WHEN WE DENY LEGITIMATE SALES. I HAVE IN MIND THE MANY BILLIONS OF TRADE AND NUMEROUS JOBS LOST WHEN SAUDI ARABIA WAS FORCED TO PROCURE AIRCRAFT FROM ANOTHER SUPPLIER. THERE WILL BE MANY MORE INSTANCES IF S 419 RECEIVES SYMPATHY IN CONGRESS.

FOR ALL THESE REASONS, THE PROPOSED S 419, ALSO KNOWN AS THE BIDEN-LEVINE AMENDMENT, CANNOT ACHIEVE A USEFUL RESULT. TO THE CONTRARY, IT WILL SIMPLY MAKE US LESS EFFECTIVE, PRIMARILY IN THE MIDDLE EAST WHERE THE STAKES FOR THE U.S. ARE SO HIGH. FURTHERMORE, SHOULD S 419 BECOME LAW, IT WOULD BE UNWORKABLE. A

PRELIMINARY EXAMINATION OF ITS APPLICATION OVER THE LAST THREE YEARS INDICATES THAT IF S 419 HAD BEEN IN EFFECT, CONGRESS WOULD HAVE FACED PASSING MAYBE OVER ONE HUNDRED SEPARATE LAWS TO ALLOW US TO SELL EVEN AT RECENT LOW LEVELS OF ACTIVITY. I TRUST, MR. CHAIRMAN, THAT AS THIS COMMITTEE CONSIDERS THE IMPLICATIONS OF THIS NEW AND UNWARRANTED APPROACH TO THE EXISTING LEGISLATION GOVERNING ARMS TRANSFER, THAT YOU WILL AGREE WITH ME THAT SUCH AN AMENDMENT NOT ONLY UNNECESSARY BUT EXTREMELY HARMFUL TO SAY THE LEAST.

LEGISLATIVE PROPOSALS

OUR AUTHORITY AND GUIDANCE FOR THE SECURITY ASSISTANCE PROGRAM--THE FOREIGN ASSISTANCE ACT AND THE ARMS EXPORT CONTROL ACT--CONSTITUTE A SOLID BODY OF LAW WHICH GOVERNS THE IMPLEMENTATION OF SECURITY ASSISTANCE PROGRAMS. WITH THE COOPERATION OF THE CONGRESS, WE HAVE BEEN ABLE TO OBTAIN AMENDMENTS WHICH HAVE LED TO IMPROVEMENTS IN THE CONDUCT OF FOREIGN POLICY.

TWO MAJOR REVISIONS OF THE AUTHORIZING LEGISLATION HAVE BEEN MADE DURING THIS ADMINISTRATION, IN 1981 AND 1985. IMPORTANT CHANGES IN 1981 INCLUDED THE CREATION OF THE SPECIAL DEFENSE ACQUISITION FUND (SDAF) AND CLARIFICATION OF THE LEGISLATION GOVERNING OVERSEAS ASSISTANCE AND SALES PROGRAM MANAGEMENT. THE EMERGENCY DRAWDOWN AUTHORITY UNDER SECTION 506(a) OF THE FAA WAS INCREASED TO $75 MILLION. CHANGES TO LEGISLATION IN 1985, COVERING PROPOSALS ACCUMULATED OVER THE PREVIOUS FOUR YEARS, PROVIDED MORE OPPORTUNITIES FOR TRAINING OF FOREIGN MILITARY PERSONNEL, PERMITTED INCREASED NATO COOPERATION IN WEAPONS DEVELOPMENT AND PROCUREMENT, REMOVED SOME COUNTRY AND PROGRAM RESTRICTIONS, AND FACILITATED PROGRAM ADMINISTRATION AND EFFICIENCY. ALL THESE PROVISIONS HAVE BEEN PUT TO GOOD USE. WE HAVE IMPROVED THE EFFICIENCY OF THE PROGRAM, IMPROVED OUR RELATIONS WITH COUNTRIES, AND, I BELIEVE, SATISFIED THE TRUST OF CONGRESS.

THROUGHOUT THE PERIOD, THERE WERE SIGNIFICANT IMPROVEMENTS IN THE TERMS OF FUNDING OF SECURITY ASSISTANCE PROGRAMS. FOR THE MOST PART, THESE HAVE BEEN LEGISLATED IN THE ANNUAL APPROPRIATIONS BILLS. THESE HAVE ALSO HELPED THE PROGRAM AND OUR RELATIONS WITH COUNTRIES, THOUGH AS WE HAVE SAID EARLIER, THE OVERALL FUNDING HAS SUFFERED A STEEP AND DANGEROUS DECLINE OVER THE LAST TWO FISCAL YEARS.

THIS YEAR, WE ONCE AGAIN SURVEYED THE OPERATIONS OF OUR PROGRAMS TO SEE WHERE WE NEEDED MORE OR REVISED AUTHORITY TO EXECUTE THE PROGRAMS CONSISTENT WITH THE OVERALL GOALS OF THE ADMINISTRATION AND THE CONGRESS. THIS YEAR THE ADMINISTRATION IN SUBMITTING PROPOSALS WHICH WE FEEL ARE NECESSARY IMPROVEMENTS AND WHICH WE ASK YOU TO GIVE SERIOUS AND FAVORABLE CONSIDERATION TO. THESE FALL INTO MAJOR CATEGORIES SHOWN ON THE FOLLOWING TWO CHARTS.

CHART 17: LEGISLATIVE PROPOSALS FOR IMPROVEMENTS TO COUNTRY DEFENSES AND TO DEFENSE RELATIONS

THE FIRST PROPOSAL I WANT TO DISCUSS IS THE WAR RESERVE STOCKS FOR THAILAND. IT ADDS THAILAND TO NATO AND KOREA AS PLACES WHERE WE WOULD HAVE AUTHORITY TO ESTABLISH STOCKPILES FOR POSSIBLE USE BY THE ARMED FORCES OF EITHER THE U.S. OR THE COUNTRY. FOLLOWING CONSULTATIONS WITH CONGRESSIONAL STAFF, WE SIGNED AN AGREEMENT WITH THAILAND ON JANUARY 9 OF THIS YEAR TO ESTABLISH SUCH A STOCKPILE, SUBJECT TO THIS REQUIRED CHANGE IN THE LAW. OVER A FIVE YEAR PERIOD WE WOULD PLACE $50 MILLION OF OUR STOCKS THERE PROVIDING THE THAIS MATCH IT WITH PURCHASES OF STOCKS THEMSELVES. THIS IS A PRUDENT AND MODEST STEP WHICH ENSURES THAT THERE ARE ADEQUATE STOCKS IN THAILAND TO PROVIDE FOR ADDITIONAL DETERENCE AND FOR USE IN CASE OF AN EMERGENCY.

THE SECOND PROPOSAL IS THE EXTENSION OF THE WAIVER PROVISIONS FOR PAKISTAN. THE DEPARTMENT OF DEFENSE REMAINS URGENTLY CONCERNED WITH THE SECURITY OF PAKISTAN, ESPECIALLY SINCE THE SOVIET UNION REMAINS IN AFGHANISTAN IN FORCE AND THE

WAR CONTINUES THERE. WE ALSO VALUE HIGHLY OUR RELATIONSHIP WITH PAKISTAN. IT IS ABSOLUTELY VITAL THAT THE WAIVER IS EXTENDED TO ENABLE THE U.S. TO CONTINUE SUPPORT TO PAKISTAN OVER THE NEXT SIX YEARS.

ON POLICE TRAINING, WE ARE AWARE HOW CONTROVERSIAL THIS HAS BEEN IN THE PAST. HOWEVER, WE ARE GRATIFIED THAT CONGRESS HAS PROVIDED US ADDITIONAL FLEXIBILITY TO TRAIN POLICE OVER THE LAST TWO YEARS. COUPLED WITH THE PROVISIONS FOR ADMINISTRATION OF JUSTICE AND OTHER LIMITATIONS, WE BELIEVE WE CAN ADMINISTER THIS TRAINING IN A WAY WHICH FULLY OBSERVES HUMAN RIGHTS. THEREFORE, WE ARE ASKING FOR AN EXTENSION OF THE AUTHORITY TO ALL DEMOCRATICALLY ELECTED GOVERNMENTS, NOT JUST THOSE WITH LONG-STANDING DEMOCRATIC SYSTEMS. THE PROPOSAL RETAINS CURRENT PROVISIONS INCLUDING THE SENDING OF NOTICES TO CONGRESS. THIS PROVISION BECOMES ESPECIALLY IMPORTANT IN THE ANDEAN COUNTRIES WHOSE GOVERNMENTS EMPLOY CIVILIAN LAW ENFORCEMENT AS WELL AS THE MILITARY TOGETHER TO COMBAT NARCOTICS TRAFFIC.

WE SHOULD EXTEND THE IMET PROGRAM TO ARGENTINA AND BRAZIL, COUNTRIES WHICH AS YOU KNOW HAVE MADE GREAT STRIDES IN RESTORING DEMOCRACY OVER THE LAST SEVERAL YEARS. WE NEED TO COMPLEMENT THESE STRIDES BY ENHANCING OUR HISTORIC MILITARY-TO-MILITARY RELATIONS. THE U.S. WOULD OF COURSE REMAIN SENSITIVE ABOUT HUMAN RIGHTS.

FINALLY IN THIS CATEGORY OF IMPROVING OUR DEFENSE RELATIONS WITH COUNTRIES, I WOULD LIKE YOU TO CONSIDER EXTENDING THE LIST OF SAFETY-OF-FLIGHT ITEMS FOR CHILE. WE GAINED LIMITED AUTHORITY TO DO THIS IN 1985, BUT WE FIND THAT IT IS STILL NOT SAFE FOR CHILEAN PILOTS TO OPERATE THEIR AIRCRAFT. WE ARE WILLING TO PROVIDE FOR THE RECORD THE COMPLETE LIST OF ITEMS, AS WE KNOW THEM NOW, NEEDED TO MAKE THESE AIRCRAFT SAFELY OPERATIVE AND TO HELP THEIR PILOTS AVOID LIFE-THREATENING SITUATIONS.

CHART 18: LEGISLATIVE PROPOSALS: FINANCIAL MANAGEMENT

TURNING TO THE NEXT CATEGORY, THERE ARE A NUMBER OF SENSIBLE WAYS WE CAN IMPROVE FINANCIAL MANAGEMENT AND ASSURE THE MOST DEFENSE FROM AVAILABLE RESOURCES. THESE IMPROVEMENTS WOULD HAVE PRACTICALLY NO BUDGETARY COST TO THE UNITED STATES.

THE FIRST OF THESE IS OUR PROPOSAL TO CONVERT UNCOMMITTED FMS CREDITS FOR THE PHILIPPINES TO GRANTS. A PROPOSAL ALONG THESE LINES WAS PASSED BY THE SENATE APPROPRIATIONS COMMITTEE LAST YEAR, BUT DID NOT SURVIVE THE CONFERENCE, PERHAPS BECAUSE IT WAS CAST TOO BROADLY. THE AMOUNT INVOLVED IS ABOUT $29 MILLION IN CREDITS ALREADY APPROPRIATED FOR THE PHILIPPINES. THE PHILIPPINES CANNOT PRUDENTLY TAKE THESE CREDITS NOW, EVEN AT CONCESSIONAL RATES, IN VIEW OF THEIR CURRENT DEBT BURDEN. YET THEY NEED THE FUNDS--AS THEY DID WHEN THEY WERE APPROPRIATED--IN ORDER TO CONTINUE IMPROVEMENTS IN THEIR FORCES. GIVEN OUR WORLDWIDE NEEDS, WE WERE NOT ABLE TO ALLOCATE ENOUGH OF FY1987 FUNDS TO THE PHILIPPINES GIVEN OUR ATTEMPT TO MEET GRAMM-RUDMAN-HOLLINGS TARGETS. THIS PROPOSAL, TOGETHER WITH THE FY1987 SUPPLEMENTAL REQUEST FOR $50 MILLION, WOULD MAKE UP MUCH OF THE DEFICIENCY IN OUR CURRENT FUNDING FOR THE PHILIPPINES DEFENSE EFFORT.

WE ARE SEEKING PERMANENT AUTHORITY FOR THE NATO SOUTHERN REGION AMENDMENT. THIS AMENDMENT ENABLES US TO PROVIDE EXCESS OR PROSPECTIVELY EXCESS EQUIPMENT AT NO COST TO NATO ALLIES WHICH RECEIVE ASSISTANCE AND WHICH PARTICIPATE IN THE INTEGRATED MILITARY STRUCTURE OF THE ALLIANCE. THIS AMENDMENT WAS SPONSORED BY THE ARMED SERVICES COMMITTEES, AND AS A RESULT WAS LIMITED TO FY1987 AND FY1988. WE ARE RESPONDING TO THE AUTHORIZATION COMMITTEE'S REQUESTS TO ENABLE PERMANENT LEGISLATION. EACH OF THE COUNTRIES' ARMED FORCES EQUIPMENT IS BECOMING OBSOLESCENT AT AN ALARMING RATE AND MUST RECEIVE ANY ASSISTANCE WE CAN PROVIDE TO MAKE A MEANINGFUL CONTRIBUTION TO DETERENCE AND THE WAR-FIGHTING CAPABILITY OF THE ALLIANCE. THIS PROPOSAL IS NOT A

SUBSTITUTE FOR INCREASED BUDGET AUTHORITY TO ENABLE THE PROCUREMENT OF NEW EQUIPMENT SO VITALLY REQUIRED TO MEET THE GROWING NEED FOR A MODERN MILITARY CAPABILITY. IT IS SUPPLEMENTARY, AND THE AMOUNTS OF EXCESS EQUIPMENT WE CAN PROVIDE ARE LIMITED, BUT IT IS NEVERTHELESS AN IMPORTANT ELEMENT OF OUR EFFORT TO STRENGTHEN NATO'S SOUTHERN FLANK.

THE PROPOSAL TO EXCLUDE MILITARY SALARIES FROM FMS FORGIVEN CREDIT TRAINING CASES WOULD BRING THIS CATEGORY OF ASSISTANCE INTO LINE WITH A SIMILAR PROVISION FOR MAP [SECTION 503(a)(3)]. ISRAEL AND EGYPT ARE THE ONLY CURRENT RECIPIENTS OF FORGIVEN CREDITS. WE APPRECIATED CONGRESSIONAL SUPPORT FOR THE LIKE PROVISION UNDER MAP, AND BELIEVE IT IS ENTIRELY LOGICAL TO EXTEND IT TO OTHER GRANT AID RECIPIENTS, ISRAEL AND EGYPT.

ANOTHER IMPROVEMENT REQUIRED IS THE ESTABLISHMENT OF FAIR AND REASONABLE INTEREST RATES. AS COUNTRIES DRAW DOWN LOANS NOW, SECTION 23 REQUIRES THAT THE INTEREST RATE BE SET AT TIME OF SIGNING THE LOAN RATHER THAN UPON DRAWDOWN. WE DO NOT BELIEVE THIS IS IN THE INTEREST OF EITHER THE U.S. OR THE CREDIT RECIPIENT. FOR EXAMPLE, LOANS IN FY1985 HAD INTEREST RATES OF FROM 10.25 PERCENT TO 11.5 PERCENT. CURRENT RATES ARE AS LOW AS SEVEN PERCENT. COUNTRIES SEE THE CIRCUMSTANCES AS ARBITRARY AND WITHOUT JUSTIFICATION. THEY HAVE BEEN UNDERSTANDABLY RELUCTANT TO DRAW DOWN THESE LOANS AT THIS TIME WITH SUCH A WIDE DIFFERENCE, ESPECIALLY SINCE ALL ARE EXPERIENCING DEBT PROBLEMS OF SOME DEGREE. CONVERSLEY, IF RATES HAD GONE UP RATHER THAN DOWN SINCE 1985, THE CURRENT PROVISION OF LAW WOULD HAVE WORKED TO THE DETRIMENT OF THE U.S. TAXPAYER. WE URGE THE CONGRESS TO ADOPT THIS PROPOSAL IN ORDER TO ASSURE THAT NEITHER THE U.S. NOR THE RECIPIENT SUFFERS LOSSES DUE TO PROVISIONS OF THE CURRENT STATUTE.

WE ARE ALSO ASKING FOR LEGISLATIVE AUTHORITY TO RETROACTIVELY WAIVE COLLECTION OF THE FOUR PERCENT PENALTY PAYMENTS ON OVERDUE LOANS. THIS PROPOSAL IS IN PART RESPONSE TO

THE SENATE APPROPRIATIONS COMMITTEE WHICH STATED--"THAT IT IS CONTRARY TO THE NATIONAL SECURITY INTERESTS OF THE UNITED STATES TO CHARGE PENALTY INTEREST ON THESE LOANS." THE PENALTY WAS ESTABLISHED BY THE ADMINISTRATION, NOT THE CONGRESS, WITH THE THOUGHT IT WOULD ENCOURAGE COUNTRIES TO MAKE TIMELY REPAYMENTS. BUT COUNTRIES WHICH HAVE FINANCIAL DIFFICULTY HAVE NOT RESPONDED. BROOKE AMENDMENT SANCTIONS ARE MUCH MORE COMPELLING FOR THESE PURPOSES. ASIDE FROM PENALTIES WHICH EGYPT HAS ACCRUED, WE DO NOT BELIEVE THERE IS MORE THAN $5 TO $10 MILLION IN ACCRUED PENALTIES. WAIVING THE PENALTIES WOULD HAVE NO APPRECIABLE EFFECT ON ANY PLANNED BUDGETARY STREAM OF RECEIPTS.

FINALLY WE HAVE REQUESTED A TECHNICAL AMENDMENT TO THE PORTION OF THE AECA WHICH DEALS WITH SALES FROM DOD INVENTORIES (SECTION 21.) WE INFREQUENTLY HAVE PROGRAMS FOR SALES OF CERTAIN ITEMS FROM OUR INVENTORY, WHEREIN READINESS CONSIDERATIONS WILL NOT ALLOW US TO SHIP THE ITEMS UNTIL THEY ARE REPLACED BY A SIMILAR BUT IMPROVED MODEL. THE FUNDS PAID BY THE COUNTRY ARE ACTUALLY USED TO PROCURE THE REPLACEMENT ITEM, WITH PERIODIC DISBURSEMENTS MADE OVER THE LIFE OF THE PROCUREMENT CYCLE--USUALLY TWO OR THREE YEARS--IN ACCORDANCE WITH NORMAL DOD DISBURSING PROCEDURES. THE STATUTE AS CURRENTLY WRITTEN REQUIRES THE PURCHASING COUNTRY TO MAKE THE ENTIRE PAYMENT THE DAY IT SIGNS THE SALES AGREEMENT: THE PROPOSED REVISION WOULD REQUIRE THE COUNTRY TO MAKE THE PAYMENT ONLY AT THOSE TIMES WHEN WE ACTUALLY NEED THEM TO PAY CONTRACTORS FOR THE REPLACEMENT ITEM. THIS PROPOSAL WOULD BRING SECTION 21, AECA, INTO CONSISTENCY WITH SECTION 22, WHICH COVERS SALES DIRECTLY FROM PRODUCTION. IT WOULD CORRECT A SITUATION IN WHICH WE COLLECT FUNDS BEFORE THEY ARE NEEDED -- AND PLACE THESE FUNDS IN A NON-INTEREST BEARING ACCOUNT AND DEPRIVE THE PURCHASER OF THEIR USE.

IN ORDER TO FURTHER ENSURE THAT NO U.S. FUNDS ARE USED TO FUND ARMS EXPORT DEALS WHICH MAY BE FRAUDULENT OR OTHERWISE QUESTIONABLE. WE HAVE PROPOSED THAT SECTION 38 OF THE AECA, WHICH REGULATES THE IMPORT AND EXPORT OF ARMS UNDER THE LICENSING PROCEDURES, BE AMENDED TO PROVIDE THAT NO CONTRACT BETWEEN A FOREIGN GOVERNMENT AND A PERSON CONVICTED OR DEBARRED FOR A VIOLATION OF SECTIONS 38 OR 39 (ON AGENTS) OF THE AECA OR OF ANY OF THE IMPLEMENTING RULES AND REGULATIONS MAY BE APPROVED FOR FUNDING. THE INELIGIBILITY WOULD LAST FOR ONE YEAR FROM THE CONVICTION OR DEBARRMENT.

CHART 19: SOVIET MILITARY/ECONOMIC ASSISTANCE

THIS CHART SHOWS, IN RED, SOVIET MILITARY SALES, WHICH ARE OFTEN ON QUITE FAVORABLE TERMS, AND IN GREEN, SOVIET ECONOMIC AID. YOU WILL NOTE THE PREPONDERENCE OF RED. FOR A SENSE OF THE RELATIVE SCALE, THE BLOCKS THEMSELVES REPRESENT A FIVE-YEAR AVERAGE. CUBA IS ABOUT $5.8 BILLION, WHILE VIETNAM REPRESENTS ABOUT $2.3 BILLION. MOSCOW'S PROVISION OF MILITARY ASSISTANCE AND ADVICE TO NORTH KOREA, VIETNAM, SOUTH YEMEN, ETHIOPIA, ANGOLA, SYRIA, LIBYA, NICARAGUA, AND CUBA FUELS THE FIRES OF RADICALISM AND AGGRESSION. THERE ARE ABOUT 20,000 SOVIET ADVISORS ABROAD, MOSTLY IN THESE COUNTRIES SHOWN. IN ADDITION THERE ARE 116,000 SOVIET TROOPS IN AFGHANISTAN AND JUST UNDER 3,000 IN CUBA. THERE ARE MORE SOVIET MILITARY ASSISTANCE ADVISORS IN LATIN AMERICA, INCLUDING CUBA, THAN WE HAVE IN THE ENTIRE WORLD AND ABOUT TWICE AS MANY IN SUB-SAHARAN AFRICA AS OUR WORLDWIDE TOTAL. FURTHERMORE, THERE ARE BETWEEN 5,000 AND 6,000 MILITARY STUDENTS AND 57,000 OTHER STUDENTS FROM THROUGHOUT THE WORLD IN THE SOVIET UNION ON AVERAGE AT ANY TIME.

IT IS NO ACCIDENT THAT THE SOVIET UNION EMPHASIZES MILITARY OVER ECONOMIC ASSISTANCE. THEY DO NOT PROMOTE FREE TRADE, OPEN ECONOMIES, OR PERSONAL FREEDOM. THEY TREAT THE PEOPLE OF OTHER COUNTRIES THE WAY THEY TREAT THEIR OWN CITIZENS. ECONOMIC PROSPERITY AND OPEN SOCIETIES ARE THE ENEMIES OF THEIR IDEOLOGY.

NOT ALL THE COUNTRIES PORTRAYED CAUSE PROBLEMS FOR THEIR NEIGHBORS, NOR DO THEY ALL TAKE DIRECTION FROM THE SOVIET UNION.

BUT OF THE 13 TREATIES OF FRIENDSHIP AND COOPERATION CONCLUDED WITH THE SOVIET UNION SINCE 1971, ELEVEN SIGNATORIES WERE EMBROILED IN SOME FORM OF WARFARE OR INSTABILITY WITHIN ONE YEAR.

CHART 20: U.S. MILITARY AND ECONOMIC ASSISTANCE

THIS FINAL CHART STANDS IN STARK CONTRAST TO THE SOVIET CHART, WHICH I HAVE LEFT BEFORE YOU. IT SHOWS THE MIX OF U.S. ECONOMIC AID IN BLUE AND MILITARY AID IN YELLOW PER COUNTRY. THE TWO CHARTS ARE TO THE SAME SCALE. THE SIZE OF THE SQUARE FOR EACH COUNTRY REPRESENTS THE SIZE OF THE PROGRAM. PLEASE NOTE THAT THE U.S. CHART DOES NOT REFLECT CASH SALES, WHICH DO NOT INVOLVE U.S. FUNDING. NOTICE THAT CUBA IS LARGER THAN EGYPT AND ISRAEL COMBINED. THE U.S. CHART DEMONSTRATES THAT THE ADMINISTRATION AND CONGRESS HAVE SOUGHT TO ACHIEVE A BALANCE OF BILATERAL ECONOMIC AND MILITARY ASSISTANCE THAT SERVES OUR FOREIGN POLICY, SECURITY, AND BASIC HUMAN NEEDS. THIS IS A TRULY INTEGRATED BUDGET, MR. CHAIRMAN. ON THIS CHART, ESF IS COUNTED AS ECONOMIC AID, AS IT SHOULD BE.

THE PREPONDERANCE OF THE ISRAELI AND EGYPTIAN PROGRAMS IS VERY CLEAR ON THIS CHART. WHEN YOU COMPARE THE SOVIET PROGRAMS IN THE AREA--WITH LIBYA AND SYRIA, FOR EXAMPLE--THE ISRAELI AND EGYPTIAN PROGRAMS ARE NOT OUT OF PROPORTION.

OUTSIDE OF ISRAEL, EGYPT, AND THE NATO SOUTHERN REGION COUNTRIES, YOU WILL NOTE A PREPONDERANCE OF GREEN ON THIS CHART. THIS CONTRAVERTS THOSE WHO SAY THIS ADMINISTRATION HAS BEEN MILITARIZING FOREIGN ASSISTANCE. OVERALL, OUR BUDGET REQUEST IS 38.5 PERCENT MILITARY ASSISTANCE. WHEN ISRAEL AND EGYPT ARE SUBTRACTED, THE SHARE OF MILITARY ASSISTANCE DROPS TO 28 PERCENT. WHEN ISRAEL, EGYPT, AND NATO COUNTRIES ARE SUBTRACTED, THE WORLDWIDE SHARE OF MILITARY ASSISTANCE DROPS TO 14 PERCENT. THESE ARE VERY SMALL PRICES TO PAY TO ENSURE THE STABILITY AND SECURITY WITHIN WHICH OUR ECONOMIC ASSISTANCE PROGRAMS CAN FUNCTION AND COUNTRY DEVELOPMENT CAN PROCEED. THESE PERCENTAGES

FOR FY1988 ARE VERY CLOSE, DOWN THE LINE, TO THOSE CONGRESS APPROPRIATED FOR FY1987, SO THE POINT CAN BE MADE AGAIN: WE ARE RESPONSIVE TO CONGRESS. WE REALLY DO NOT DIFFER ON THE GOALS OF THE INTEGRATED FOREIGN ASSISTANCE BUDGET. ONLY THE GROSS AMOUNT OF BUDGET RESOURCES IS NOW AT ISSUE.

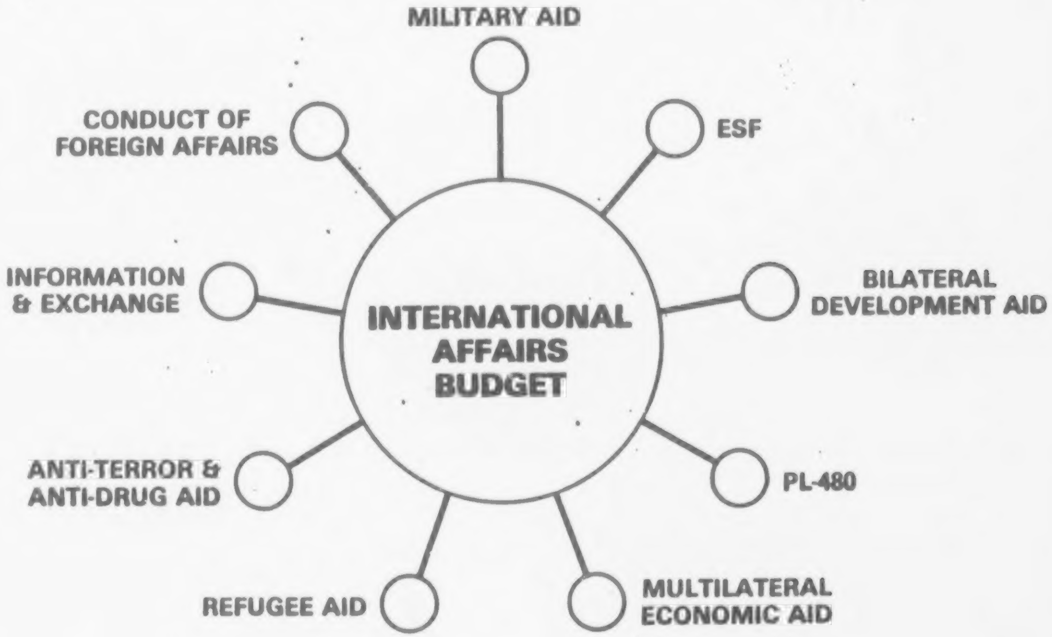
MR. CHAIRMAN, I HAVE TESTIFIED IN DETAIL TODAY ABOUT THE MILITARY ASSISTANCE PROGRAMS WHICH ARE SO CRUCIAL FOR OUR FOREIGN POLICY AND NATIONAL SECURITY. BUT I AM HERE ALSO TO URGE YOU TO SUPPORT THE ENTIRE REQUEST FOR THE INTERNATIONAL AFFAIRS BUDGET REQUEST OF THE PRESIDENT--FOR MILITARY ASSISTANCE, ECONOMIC ASSISTANCE, STATE DEPARTMENT OPERATIONS, AND OUR INFORMATION AND EXCHANGE ACTIVITIES. THE AMERICAN PUBLIC HAS A FAR MORE VITAL STAKE IN THESE INTERNATIONAL ACTIVITIES THAN IS COMMONLY RECOGNIZED. WE ARE A MAJOR PART OF THE WORLD, AND THE WORLD INTRUDES ON OUR LIVES MORE THAN WE LIKE TO ADMIT. BUT IF WE ARE TO CONTROL WHAT WE CAN AND CONTRIBUTE WHERE WE CAN, WE NEED THE RESOURCES AND THE LEVERAGE THE FY1988 BUDGET REQUEST PROVIDES. WE NEED YOUR SUPPORT.

I WOULD BE HAPPY TO TAKE ANY QUESTIONS YOU MAY HAVE.

THE CHARTS REFERRED TO FOLLOW:

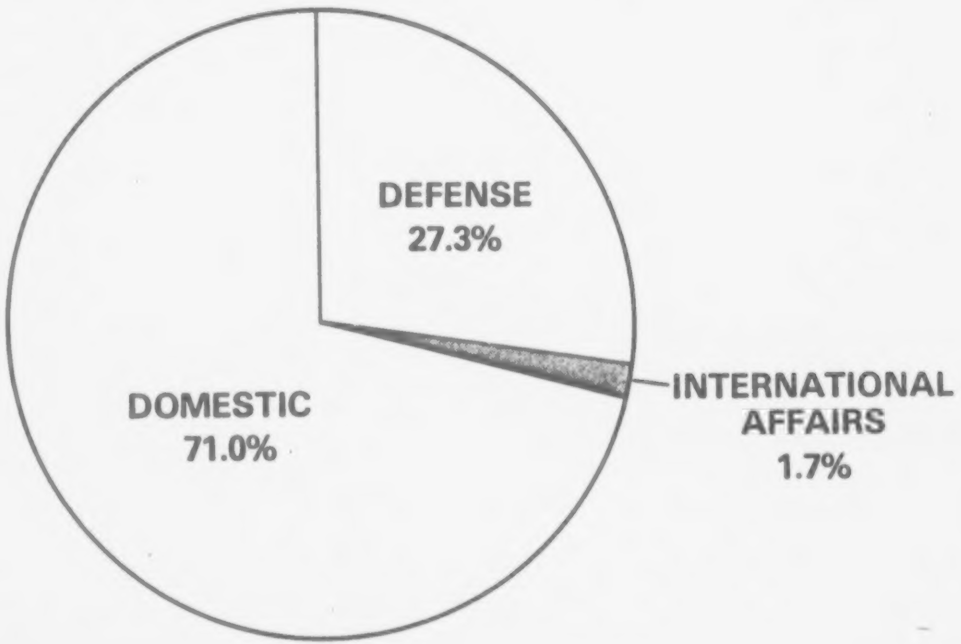
[CHART 1]

INTERNATIONAL AFFAIRS BUDGET MAJOR FUNCTIONS


MILITARY AID
CONDUCT OF FOREIGN AFFAIRS
ESF
INFORMATION & EXCHANGE
INTERNATIONAL AFFAIRS BUDGET
BILATERAL DEVELOPMENT AID
ANTI-TERROR & ANTI-DRUG AID
PL-480
REFUGEE AID
MULTILATERAL ECONOMIC AID

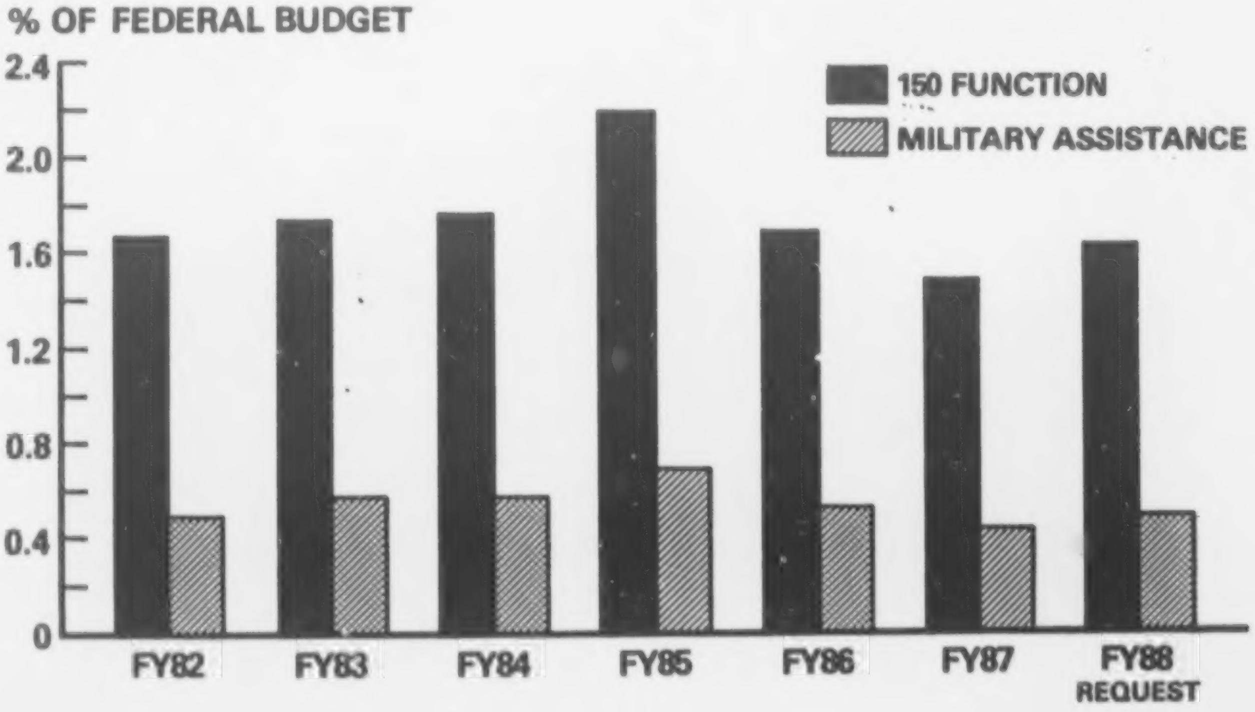
[CHART 2]

THE PRESIDENT'S FY 1988 BUDGET REQUEST



[CHART 3]

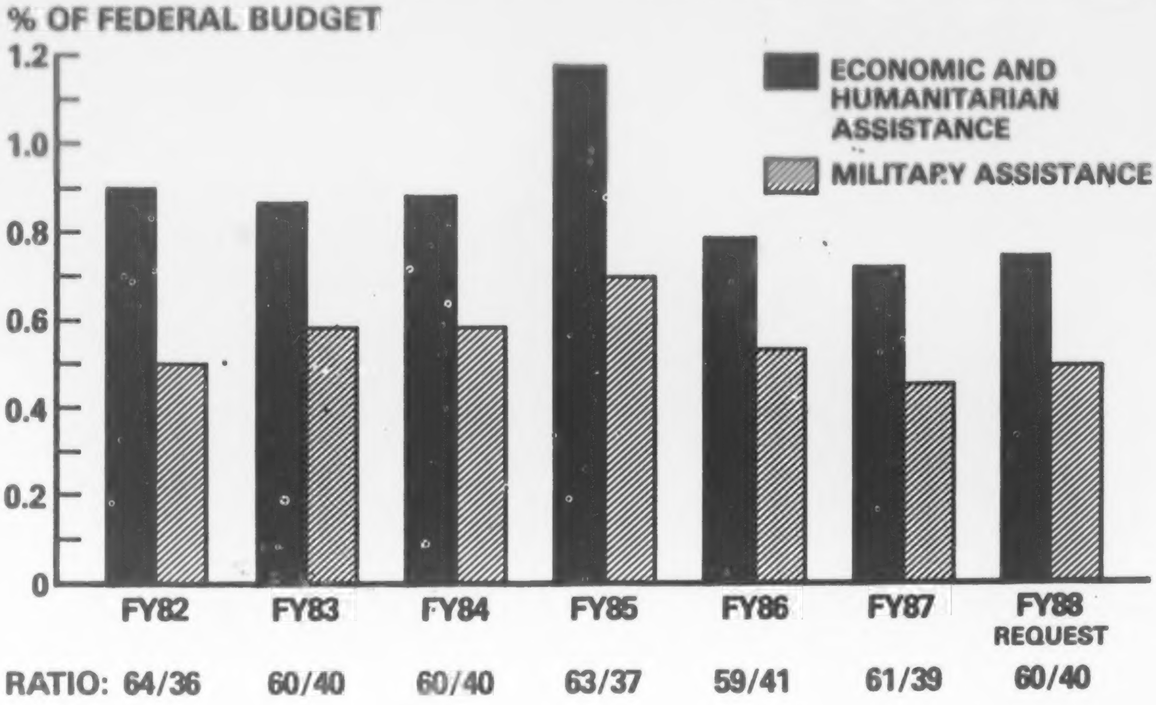
INTERNATIONAL AFFAIRS FUNDING
FY 1982 — FY 1988



[CHART 4]

FOREIGN ASSISTANCE FUNDING

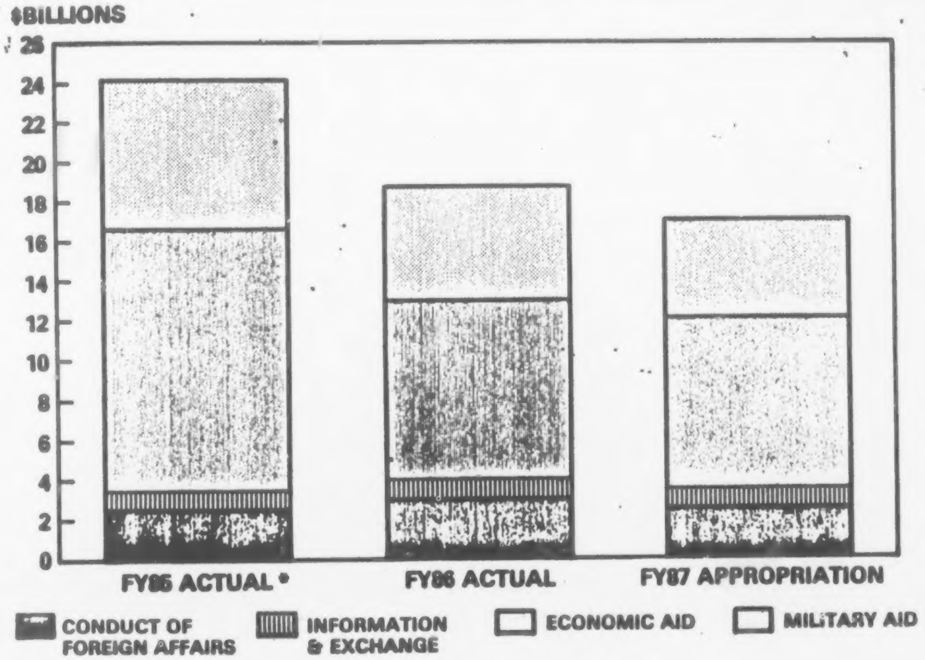
FY 1982 — FY 1988



[CHART 5]

INTERNATIONAL AFFAIRS FUNDING

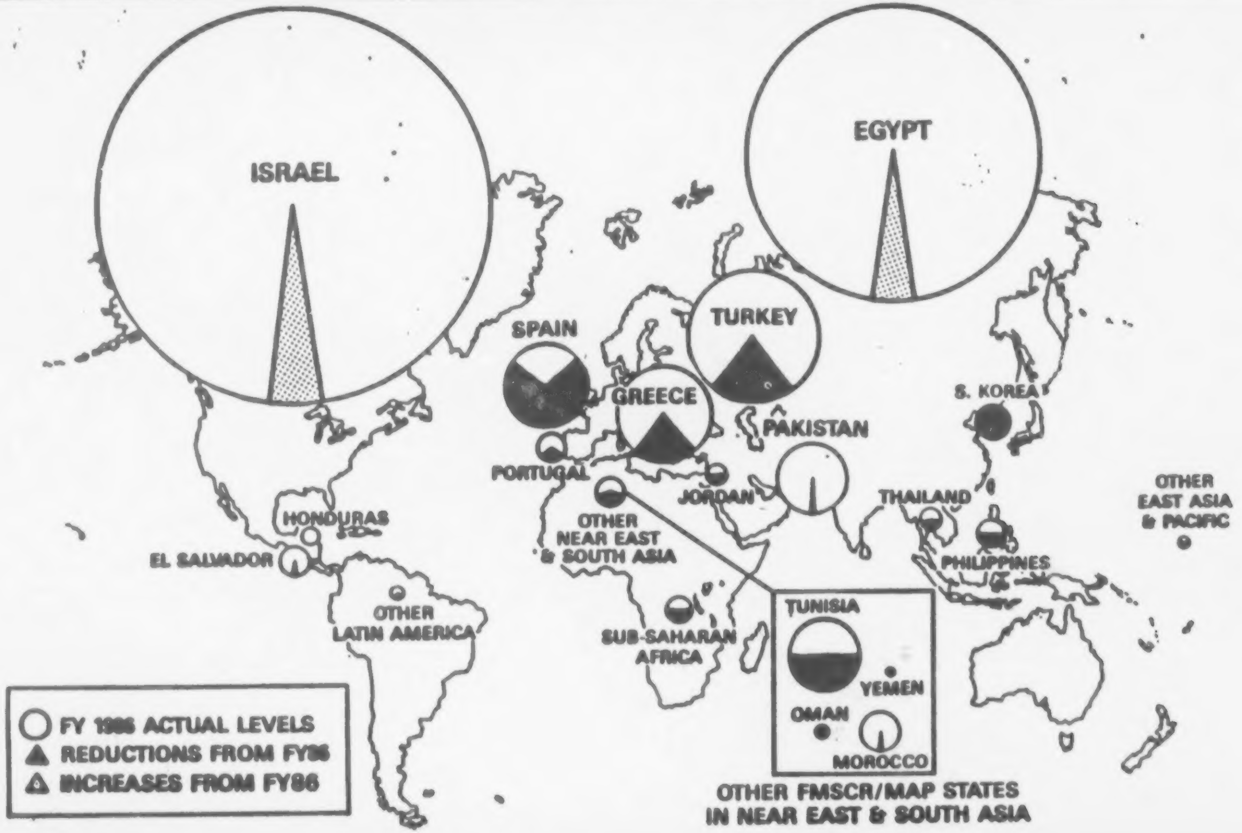
FY85 - FY87



* INCLUDES $2,258 MILLION ESF SUPPLEMENTAL FOR MIDDLE EAST

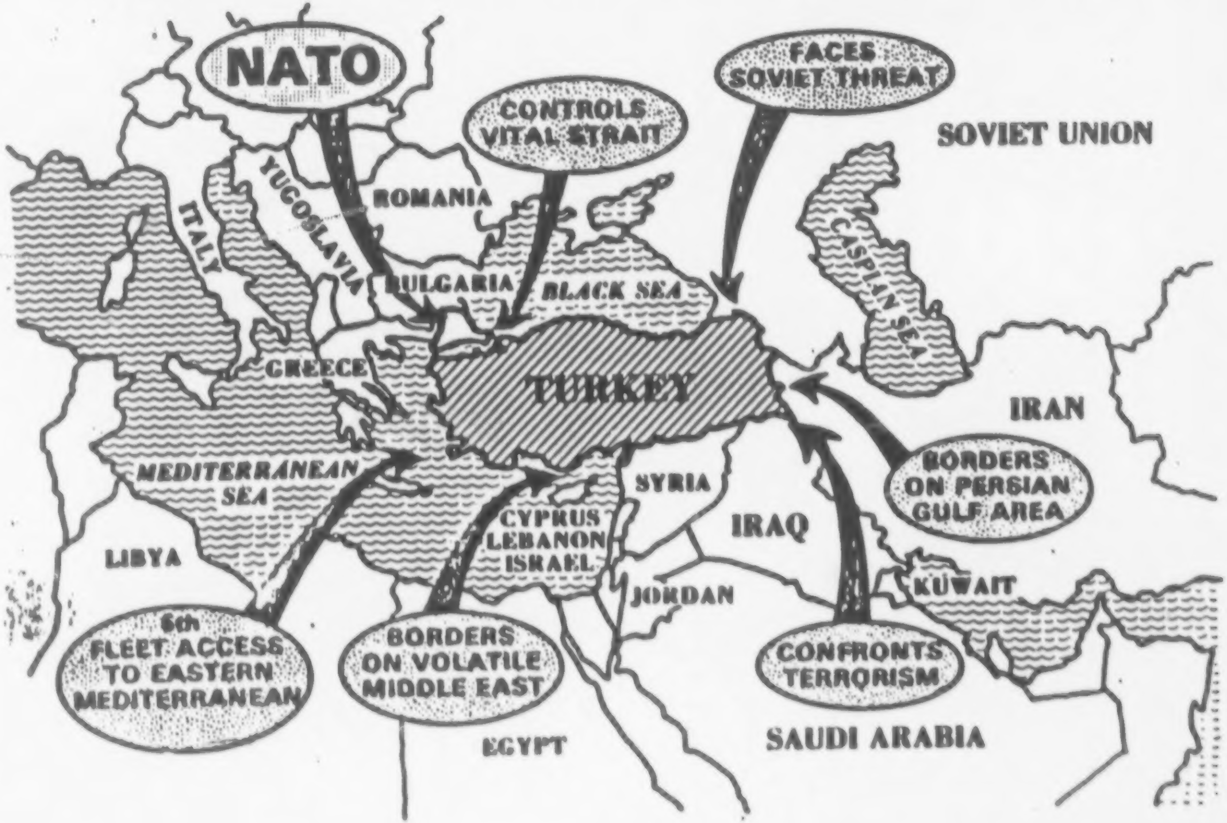
[CHART 6]

FMSCR, MAP, & IMET:
REDUCTIONS FROM FY 1986 ACTUAL LEVELS



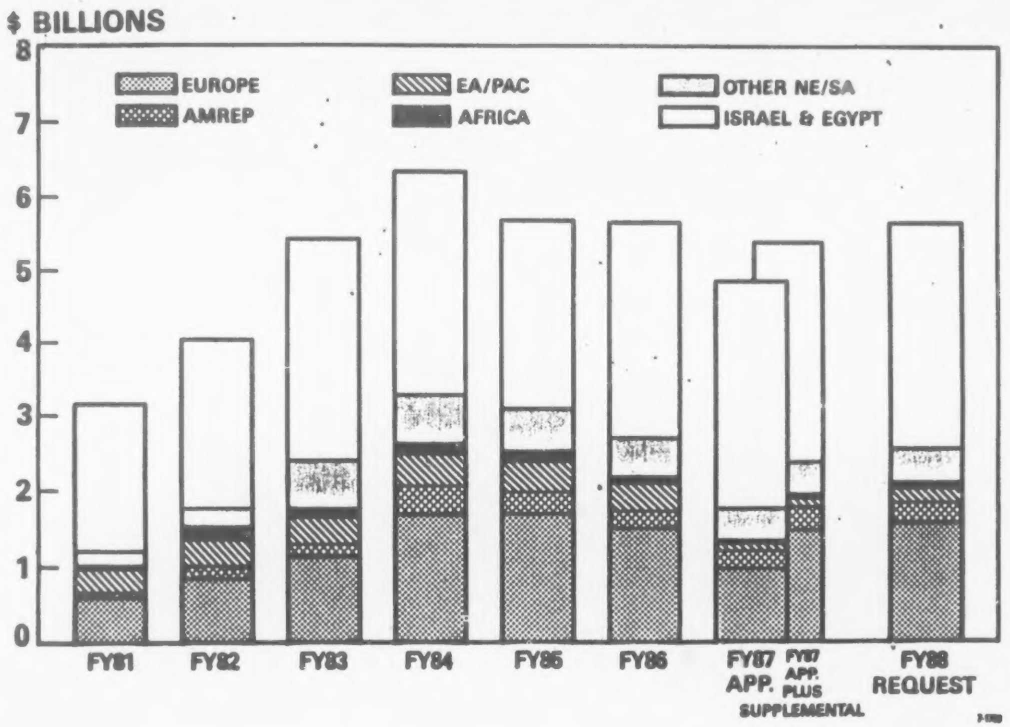
[CHART 7]

TURKEY AT STRATEGIC CROSSROADS



[CHART 8]

FMS CREDITS AND MAP
FY 1981 — FY 1988



[CHART 9]

LEGISLATIVE INITIATIVES

FINANCIAL MANAGEMENT

- TRANSFER UNCOMMITTED FMS CREDITS FOR THE PHILIPPINES TO FORGIVEN FMS
- PERMANENT AUTHORITY FOR NATO SOUTHERN REGION AMENDMENT
- EXCLUDE MILITARY SALARIES FROM FMS FORGIVEN CREDIT CASES
- FIX INTEREST RATES ON FMS NONCONCESSIONAL LOANS AT TIME OF DRAWDOWN
- WAIVER OF PENALTY INTEREST ON FMS LOAN ARREARAGES
- DIRECT CITE FOR CONTRACTS INVOLVING REPLACEMENT-IN-KIND

COMBATTING FRAUD AND ABUSE

[CHART 10]

LEGISLATIVE INITIATIVES

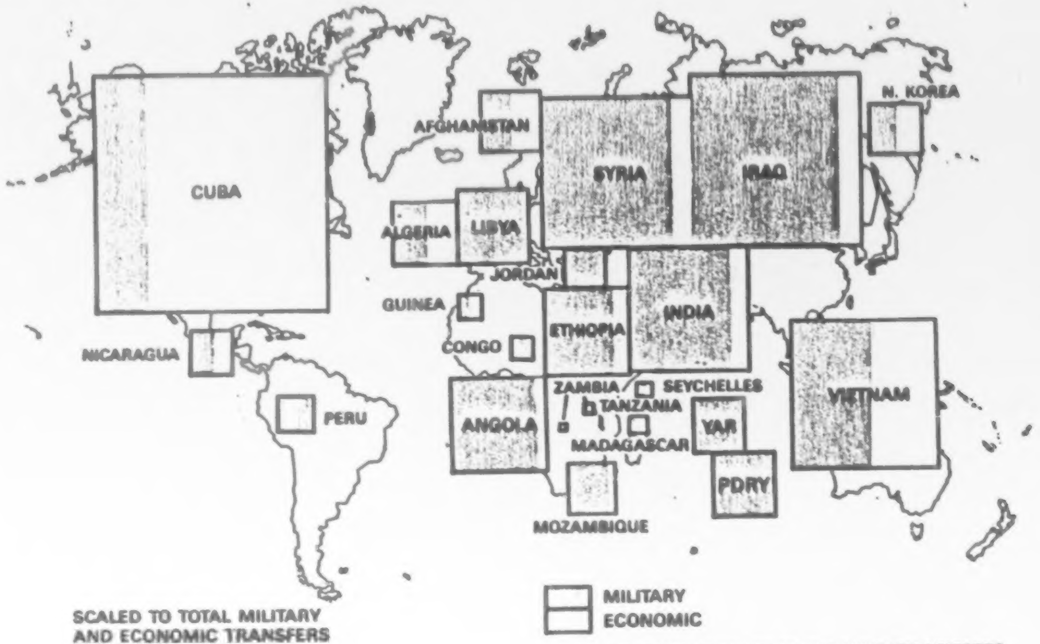
IMPROVEMENTS TO COUNTRY DEFENSES AND TO DEFENSE RELATIONS

- WAR RESERVE STOCKS FOR ALLIES — THAILAND
- EXTEND GLENN — SYMINGTON WAIVER FOR PAKISTAN
- TRAINING ASSISTANCE FOR ARGENTINA AND BRAZIL
- SAFETY OF FLIGHT ITEMS — CHILE

POLICE TRAINING FOR DEMOCRATIC GOVERNMENTS

[CHART 11]

SOVIET MILITARY SALES/ASSISTANCE AND ECONOMIC ASSISTANCE* (1981-1985)



SCALED TO TOTAL MILITARY AND ECONOMIC TRANSFERS 1981-1985

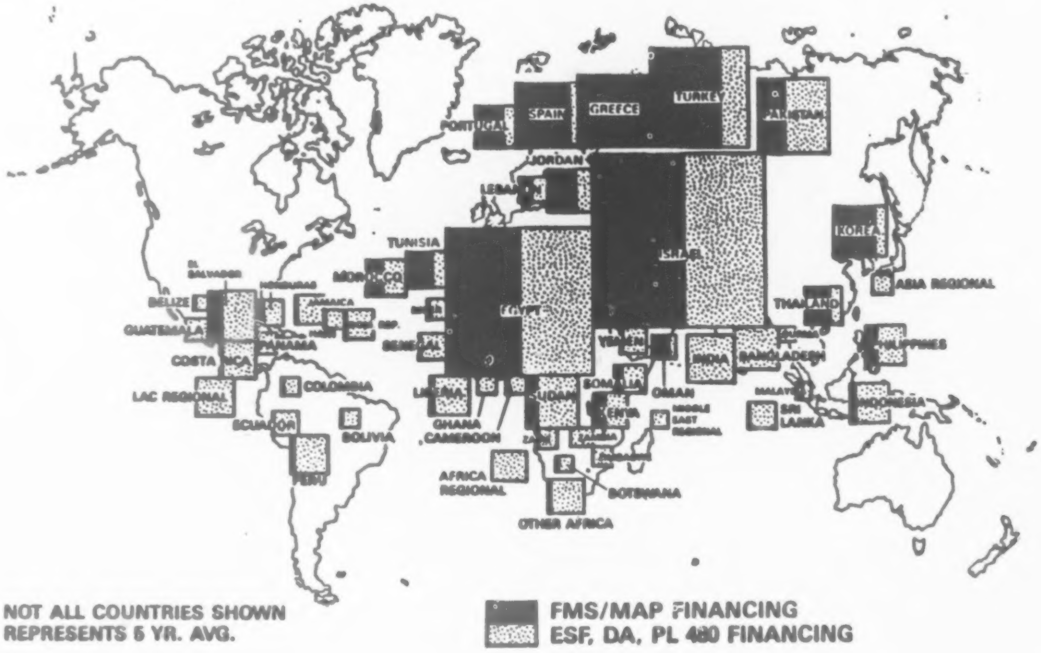
INDICATES 5 YEAR AVERAGE

*APPROXIMATELY 20,000 SOVIET MILITARY ADVISORS (NOT INCLUDING COMBAT TROOPS)

[CHART 12]

U.S. MILITARY AND ECONOMIC ASSISTANCE FY 1981 - FY 1985

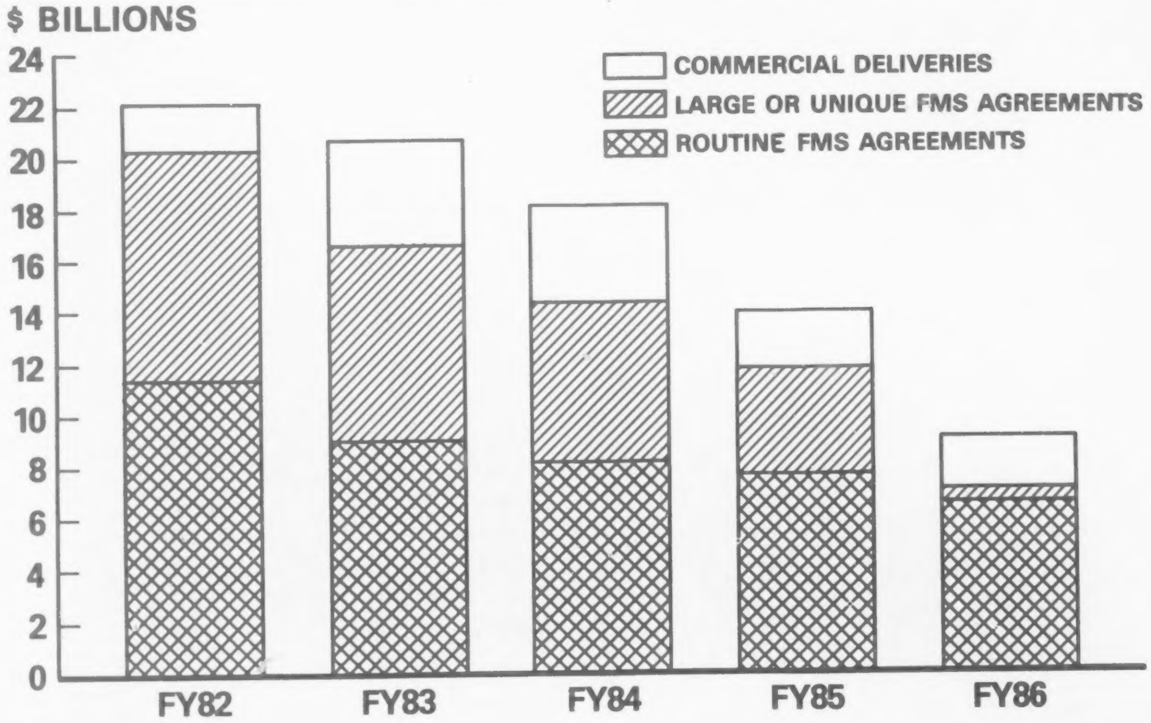
(SCALED TO PROGRAM SIZE)



NOT ALL COUNTRIES SHOWN
REPRESENTS 5 YR. AVG.

[CHART 13]

U.S. DEFENSE TRANSFERS
FY82 - FY86



[CHART 14]

SECURITY ASSISTANCE ACCOMPLISHMENTS 1981-1985

- WITH CONGRESS
  - FUNDING
  - AGREED GOALS
  - IMPROVEMENTS IN LAW
  - MANAGEMENT IMPROVEMENTS
- WITH COUNTRIES
  - PLANNING
  - STRATEGIC DIALOGUES
  - QUALITY OF AID
- FOR NATIONAL SECURITY
  - DETERRENCE/CONFLICT MANAGEMENT
  - CONTRIBUTION TO REGIONAL STRATEGIES
  - BASE RIGHTS

ADDITIONAL ESF RESOURCES TO CONTINUE THE NATIONAL BIPARTISAN PLAN FOR CENTRAL AMERICA

Pursuant to President Reagan's March 3, 1987 request to the Congress for expedited consideration of additional economic assistance for the Central American democracies, A.I.D. requests for FY 1987 $300 million in Economic Support Funds (ESF) for Costa Rica, El Salvador, Guatemala and Honduras. These funds, which are to be made available through transfers from other existing appropriations, fulfill the Congressional attempt to aid the democracies last year in Public Laws 99-500 and 99-591. The proposed distribution is as follows:

FUNDING DISTRIBUTION FOR ADDITIONAL RESOURCES
(millions of dollars)

Country	Balance of Payments	Project Assistance	Earthquake Reconstruction	Total Funding
Costa Rica	40			40
El Salvador	40	15	100	155
Guatemala	40			40
Honduras	40	25		65
TOTAL	160	40	100	300

Regional Overview

The Central American Initiative (CAI) proposed $6.0 billion of U.S. economic assistance (exclusive of guarantees) for the five-year period 1985 to 1989. Total appropriated funding levels are some $644 million behind the CAI proposed level through FY 1986. In FY 1987, funding will fall another $416 million behind. This shortfall, combined with the slow recovery of the world economy, lower-than-expected resource flows from other external sources, declining prices for Central America's major agricultural exports, and prolonged conflict in the region, is seriously delaying achievement of most of the goals laid out in the CAI. Recent declines in world coffee prices will reduce foreign exchange earnings by the region by more than $350 million this year from last.

An additional $300 million of ESF in FY 1987 would allow the United States to increase support for the economic stabilization, structural adjustment, greater equity, and democratization efforts of the core four Central American countries. Of the total, $100 million would be provided for reconstruction from the October 1986 earthquake in El Salvador. The funding would also accelerate or expand key development programs in support of the CAI objectives.

The countries of Central America have begun to implement economic programs which can lead to sustained economic recovery if adequately supported by external assistance over the medium term. When combined with programs to spread the benefits of growth and to strengthen democratic processes and institutions, economic reforms can also strengthen political stability in Central America and afford greater protection to the vital security interests of the United States in the Region.

Proposed Uses of Supplemental Funds

The $300 million in additional ESF funds would be used as follows:

— Balance of Payments Assistance - $160 Million:

We would increase balance of payments support for the economic adjustment programs in Guatemala, El Salvador, Honduras and Costa Rica by $40 million each. In each of these countries, democratic governments are implementing politically unpopular reform programs and austerity measures which will eventually create the conditions needed to increase production, employment, and exports, but which have the immediate effect of reducing consumption, increasing domestic prices and creating some political turmoil. To help mitigate the short-term effects of these necessary measures, our ESF programs provide foreign exchange that permits countries to import inputs needed to maintain domestic production and employment, as well as basic foodstuffs, medicines, and other basic consumption items which cannot be supplied by local producers. Costa Rica and the fledgling democracies of El Salvador, Honduras and Guatemala need U.S. support for their programs if they are to be fully and effectively implemented and the basis laid for future growth.

In addition to providing dollar resources to support economic stabilization programs, an equivalent amount of local currency is generated to support domestic development activities in each recipient country. The local currencies are jointly programmed by A.I.D. and the host government. The local currency generated by this assistance is critical to expansion of both social and productive investment programs in a period of required austerity. Funding will be programmed for activities such as agrarian reform, judical reform, health/child survival, education and employment generation.

--Earthquake Reconstruction - $100 Million:

El Salvador suffered serious loss of life and damage to the country's infrastructure estimated at more than $1 billion from an earthquake in October 1986. Congress has appropriated $50 million in immediate earthquake relief and recovery assistance. The additional $100 million provided here would assist in the Salvadoran Government's longer-term reconstruction program.

-- Project Assistance - $40 Million:

-- El Salvador - $15 Million.

An additional $9 million would be provided to accelerate the restoration of vital public services damaged by continuing guerrilla sabotage, e.g., bridges, transport, power, water and communications. Also, $6 million would go to PVOs offering humanitarian assistance to displaced persons and to urban and rural poor.

-- Honduras - $25 Million.

For increased funding of ongoing high impact projects in agriculture, export promotion, education, privatization, and economic policy planning.

Implications of Inadequate Funding

We believe the plan we are implementing is on the right track, even though external events have contributed to making the recovery slower than anticipated. Central American and Caribbean governments have made significant strides in implementing policy reforms, and they have taken risks in introducing unpopular but necessary measures. However, additional reforms are still needed, and governments will be reluctant or unable to adopt them unless they know that they can count on our financial support to cushion the initial effects of these reforms and make them more palatable to their citizens.

Further, without this supplemental support, the ability of the Central American leaders to provide improved economic opportunities and social services to their people will be further constrained. The result will likely be weakened support for elected leadership and democratic institutions. Our security interests require us to make sure that the economic recovery will be broad-based and long-lasting.

Costa Rica

Balance-of-Payments Support - $40 million

The Costa Rican government under the leadership of President Alberto Monge made significant progress between 1982 and 1986 in reversing the disastrous economic slide of 1980-81 and in laying the base for renewed growth. The administration of Oscar Arias which took office last May is committed to continuing that process, a process to which U.S. balance-of-payments aid is critical. While economic growth has been positive since 1983, the estimated per capita gross domestic product (GDP) in 1986 is still below that of a decade ago. Costa Rica continues to labor under a huge external debt, close to $4 billion, which, coupled with a trade deficit of $200 million, results in an annual external aid requirement of around $300 million. Recent declines in coffee prices -- to the lowest levels in more than a decade -- have further reduced export earnings.

The requested supplemental will increase ESF levels for Costa Rica to $127.7 million which, with the expected inputs of the International Monetary Fund (IMF), the Inter-American Development Bank and the World Bank, will substantially close the gap and permit Costa Rica's recovery to continue.

Impact of Lack of Supplemental

A reduction in US financing would delay economic recovery. ESF resources facilitate imports by the productive sector and have been critical to the development of nontraditional exports, which are now growing at the exceptional rate of 30% per annum. Lower aid levels in the case of Costa Rica clearly equate to reduced recovery of growth and employment, with corresponding impact on the poorer element, of Costa Rican society.

EL SALVADOR

Balance-of-Payments Support - $40 Million

Supplemental balance-of-payments assistance will help El Salvador get through a very difficult year in 1987. Coffee export revenues are expected to be more than $60 million below 1986 levels, and no other export will make up for the shortfall. Debt service obligations for 1987 are high. A $40 million supplemental can help the government meet its modest 2.5% GDP growth target for 1987 with no loss of reserves, provided earthquake reconstruction needs are fully funded by the United States and other donors.

Project Assistance - $15 million

-- Restoration of Public Services (519-0279) - $9 Million

Damage to El Salvador's infrastructure from communist insurgent sabotage continues and exceeds $1 billion. In the summer of 1986 more electric pylons were blown up than at any time in the protracted insurgency. The Salvadoran civilian agencies such as the national electric authority work round-the-clock to keep public utilities functioning and transportation links open, on a very limited budget and at great personal risk. An additional $9 million will be used for the procurement of commodities and technical assistance for Salvadoran government agencies to carry out high-priority repair and renovation of telephone, electric and water systems as well as critical roads and bridges.

-- Private Voluntary Organizations (519-9999) - $6 million

A.I.D. proposes to allocate an additional $6 million to finance U.S. and local private and voluntary organization (PVO) programs which serve low-income families. One operational program grant (OPG) with Save the Children will allow poor urban families living in tenements to buy or lease the properties and to improve their condition. Two local PVOs, Fundacion

Habitat, and Fe y Trabajo, are also seeking A.I.D. assistance for low-income housing programs. Other OPGs with local PVOs which will be funded include an expansion of civilian amputee rehabilitation services, private sector health and population outreach, and initiatives to improve labor-management relations in the private sector.

Impact of Lack of ESF Supplemental

Balance of Payments: Without the supplemental of $40 million, real growth without reserve loss would be reduced by 0.5 to 1.0 percentage points. At a time when El Salvador faces a mounting foreign debt and a drop in coffee revenues, the shortage of foreign exchange for critical, productive imports will be even more severe.

Project Assistance:

-- Restoration of Public Services (519-0279). Without an additional $9 million, the Government of El Salvador's capacity to carry out repair and renovation of public services -- telephone, electricity, water, roads and bridges -- damaged by the insurgents will be reduced, and the national economy, as well as the confidence of affected communities in their elected government, will suffer accordingly.

-- Private Voluntary Organizations (519-0999). Without an additional $6 million, A.I.D. will not have the resources to fund several promising PVO activities, including prosthetic and rehabilitation services for civilian amputee victims of the war, low-income housing expansion, population outreach services, and a pilot project to improve labor-management relations in the private sector.

Assistance for Earthquake Reconstruction

A.I.D. requests $100 million of ESF funds to assist El Salvador in addressing its long-term earthquake reconstruction needs.

The October 10, 1986 earthquake which struck the City of San Salvador killed more than 1,000 people, injured an estimated 10,000 and left upwards of 150,000 homeless. Damage to public services, housing and infrastructure - schools, hospitals, government buildings - as well as to commercial establishments is estimated at more than $1 billion. The poorest strata of the San Salvadoran population - the slum and tenement dwellers, low-income workers, and small and micro businessmen - were hardest hit. The earthquake devastation compounds the problems of a country already fighting a civil war, reeling from guerrilla sabotage to transportation links, electric, telephone and water systems, and struggling with economic problems.

The period since the October 10, 1986 earthquake has seen the government and people of El Salvador courageously resume their former lives. A joint Government of El Salvador (GOES) and A.I.D. Earthquake Recovery Program implementation structure is in place. The provision of basic necessities and resuscitation of economic activity in the recovery phase have been substantially aided by the $50 million in disaster recovery and rehabilitation funds provided by the Congress. These funds have been totally obligated by Project Agreement with the GOES. After some initial startup problems, the rehabilitation and reconstruction work is beginning to build momentum. The planning is proceeding well and implementation is moving forward. About $21 million have now been disbursed, and most of the balance should be ready for disbursement by the end of June.

Beyond the recovery phase, however, a massive longer-term reconstruction task remains to restore public services on a permanent basis and to rebuild infrastructure critical to the economic and political well-being of the nation.

Proposed Use of Supplemental Funds

AID has been working closely with the GOES and other donors on assessing the damage and determining reconstruction needs. The following shows the amounts requested based on the current assessment:

	($000) Revised
a. Housing credit lines for repair and reconstruction	$15,000
b. Shanty town upgrading including sites and services	20,000
c. Low-cost tenement housing including relocation, sites and services	20,000
d. Government buildings and facilities for courts, land registry, municipal offices, Ministries of Planning, Education, Agriculture and Justice	15,000
e. Street repair and extension in earthquake areas	10,000
f. Municipal and urban institutional strengthening	5,000
g. Private urban reconstruction through U.S. and Salvadoran private voluntary intermediaries like Cooperative Housing Foundation (CHF)	5,000
h. Private medical and education facilities	10,000
TOTAL	$100,000

The project takes into account other external funding; the management and absorptive capacity of the Government of El Salvador (GOES); technical assistance requirements; and the need for flexibility. The overall life-of-project is expected to be three years.

Impact of Lack of Supplemental

In the absence of the $100 million, the GOES will be unable to restore many public services and rebuild damaged infrastructure vital to public management, delivery of services and for the conduct of the government. The people who need assistance to reestablish themselves are mostly poor and low-income families. Without credit for housing and small and micro businesses, these people may never be self-supporting. Without adequate buildings and facilities, the ability of private and public sectors alike to carry out the earthquake reconstruction will be greatly impaired.

Guatemala

Balance-of-Payments Support -- $40 million

Upon taking office in 1986, Guatemala's new democratic government inherited five years of negative real per capita GDP growth coupled with a severe population growth rate, spiraling inflation and enormous short-term debt. The new government moved quickly to reverse the ill-conceived policies which had led to the economic crisis and put in place an ambitious, comprehensive stabilization program ranging from simplification of the exchange system and lifting of price controls to improvements in revenue administration.

This extensive program has shown positive results in the form of a lower-than-planned budget deficit, low inflation and reduced capital flight. However, Guatemala's real GDP growth rate still only approached zero in 1986, and in per capita terms it declined for the sixth consecutive year. The economy must begin to grow in real terms if the new government is to demonstrate the capability of a democratically elected regime to address the economic crisis and manage the economy. Even with AID's balance-of-payments assistance of $56 million in FY 1987, Guatemala's need for additional external assistance of about $165 million will not be covered. Falling coffee prices and further deterioration in trade within the Central American Common market have worsened Guatemala's balance-of-payments position. Additional A.I.D. balance-of-payments assistance will assure financing of imports for productive inputs necessary to help achieve Guatemala's target of a 2% real GDP growth rate in 1987.

Impact of Lack of Supplemental

Clearly, another year of no GDP growth and the resultant negative real per capita growth rate would put considerable pressure on Guatemala's government, economy, and social stability. Insufficient balance-of-payments support would also weaken the GOG's ability to proceed with additional economic reforms in 1987. The most important of these are the elimination of the temporary export tax, early unification of the exchange rate, movement to positive real interest rates, and removal of the structural constraints on investment and export growth. Both the analysis done for the CAI and A.I.D.'s subsequent economic analysis have emphasized that the timely implementation of these reforms is critical to achieving the economic stabilization and growth objectives of the CAI.

Honduras

Balance-of-Payments - $40 million

An additional $40 million for balance-of-payments support would have significant short- and long-term effects on Honduras' economic prospects. In the short term, the supplemental should enable real GDP growth to be maintained at around 2%-3%. In the absence of the supplemental, it is likely that real GDP growth will be close to zero. Over the longer term, the supplemental will enhance prospects for successful implementation of policy reforms essential to achieving sustainable economic growth and increased employment.

Project Assistance - $25 million

-- Agricultural Research Foundation (522-0249), $4.5 million - The additional funds will provide support for joint government-private sector research concentrated on nontraditional exports.

-- Irrigation Development (522-0268), $6 million - These funds will finance additional irrigation systems critical to development of nontraditional agricultural exports.

-- Export Development and Services (522-0207), $1.55 million - These funds will help Honduras restructure its export promotion program to accelerate investment in and production of nontraditional exports.

-- Primary Education Efficiency (522-0273), $6.65 million - A.I.D. assistance under this project has helped to increase dramatically the availability of schooling and enrollment at the primary level. These supplemental funds will help finance improvements in the quality of primary education.

-- Privatization of State-Owned Enterprises (522-0289), $1.9 million - Additional funding will permit faster movement on divestiture of publicly owned or controlled enterprises.

-- Policy Planning and Institutional Development (522-0325), $4.4 million - These funds will support a new project designed to enhance Honduras' capability to analyze and address macroeconomic constraints.

Impact of Lack of Supplemental

Balance-of-Payments Support. As noted above, without the additional financing which this supplemental would provide, real growth is likely to be close to zero, a level which may undercut public support for the Government of Honduras (GOH) promising economic reform program and thereby reduce the government's ability to continue the important monetary and fiscal restraints which were introduced in FY 1986.

Project Support. Additional funding for the above-mentioned projects will permit a partial catch-up on the rate of development envisioned by the National Bipartisan Commission on Central America. Under the strict constraints of the GOH's necessary monetary and fiscal program, Honduran public investment is severely limited. A.I.D.'s projects are key to stimulating private investment, improving the efficiency of private investment in productive activities, and increasing the access of the poor to primary education services.

THE CENTRAL AMERICAN INITIATIVE

Achievements

The Central American countries were close to collapse in the early 1980s -- the result of a combination of economic, political, social, and security conditions. The crisis was profound:

- El Salvador and Guatemala were seriously threatened by leftist insurgencies, by widespread political violence from the extreme right, and by human rights abuses;
- judicial systems in some countries were nearly inoperative, and military governments lacking broad-based support ruled several countries;
- Per capita incomes had fallen 12% over the previous three years -- and by 20% in El Salvador;
- private investment had plummeted, and about $1.5 billion of private capital had flown out of the region during the previous three years;
- social services were deteriorating as governments found themselves with growing needs and declining resources;

In sum, the situation was bleak, and potentially catastrophic. The potential for collapse led to the establishment of the National Bipartisan Commission on Central America headed by Henry Kissinger. The recommendations of the Commission were embodied in legislation launching the Central American Initiative (CAI) a major U.S. assistance program, spanning five years and requiring $6.4 billion in U.S. economic assistance.

Three years into the implementation of this ambitious effort, the threat of regional catastrophe has receded dramatically. Substantial progress has been made on all of the major goals of the Administration's Central American Initiative.

The C.A.I. strategy is focused on four broad goals: (1) the strengthening of democratic institutions and respect for human rights, (2) short-term economic stabilization, (3) basic policy reforms which permit rapid and sustained economic growth and (4) a wider sharing of the benefits of growth. This growth-with-equity strategy emphasizes productive employment opportunities as well as greater access to health care, education, and social services.

Progress to date has been particularly encouraging in the area of democratization:

-- In Guatemala and El Salvador the number of deaths and disappearances has been reduced drastically, and military attitudes toward human rights have improved significantly.

-- We have initiated a variety of training and technical assistance programs for members of the executive, legislative, and judicial branches of government.

-- Nearly 3,500 persons had begun training in the United States under the Central America Peace Scholarships (CAPS) program, 22% more than originally planned.

We are also seeing real progress on economic stabilization. Between 1983 and 1986:

-- real annual GDP growth rate has risen from minus 0.8% to 1.4%;

-- net private capital outflow of $101 million was converted to a net inflow of $215 million; and

-- government fiscal deficits were reduced from 5.1% of GDP to 2.8%.

Nevertheless, the pace of economic recovery is slower than the 2.5%-3.0% p.a. real GDP growth rate we had hoped for by 1986. The unsettled regional political/military climate and unfavorable external economic conditions have been major factors. Commodity prices remain low, world trade is growing slowly, and public and private capital inflows are below expectations. In addition, some governments have not moved far enough in making key policy changes, such as reducing fiscal deficits and realigning exchange rates. The economic stabilization phase is taking longer than originally envisioned by the NBCCA, absorbing resources needed for a greater concentration on the other objectives.

In the area of establishing a foundation for rapid and sustained long-term growth:

-- The ratio of private investment to GDP, which had fallen from 16.1% in 1980 to 8.9% in 1983, recovered to 11.4% in 1986. One country -- Costa Rica -- has fully recovered its 1980 private investment/GDP ratio.

-- Nontraditional exports to destinations outside of Central America rose by an encouraging 15% per year between 1983 and 1986. A.I.D. programs facilitated this growth in a variety of ways.

Progress is also evident in spreading the benefits of economic growth:

-- The infant mortality rate has declined from 61/1,000 in 1983 to an estimated 57/1,000 in 1986.

-- Primary school enrollments have increased; excluding El Salvador, for which data are not available, the primary school completion rate rose from 72% in 1983 to an estimated 75% in 1986.

- -- The average number of student-years needed to produce a 6th-grade graduate has dropped since 1980 by one year in Guatemala and by 1.6 years in Honduras.
- -- A.I.D. has supported training for 16,000 Guatemala and Honduras teachers over the last four years; our plans call for training an additional 50,000 in the region during 1987-90.
- -- The percentage of couples using family planning has risen from 37.5% in 1983 to an estimated 41.7% in 1986.

The Future

Because of budgetary restrictions, U.S. assistance levels in Central America have fallen far short of the levels recommended by the NBCCA. Without the additional $300 million we have requested for FY 1987, the cumulative shortfall would exceed $1 billion by the end of this fiscal year.

Last month we presented to the Congress a report, as required by the FY 1987 continuing resolution, on what would be required to fully fund the recommendations of the NBCCA. The report (Attachment A) shows that additional time will be needed to meet the recommendations of the NBCCA. We have therefore requested that the CAI period be stretched out for three years, to run through FY 1992, and that total appropriated funding for the CAI be increased from $6.4 billion to $6.9 billion.

Consistent with the findings of the Full Funding Report we are requesting an additional $300 million in Economic Support Funds (ESF) for FY 1987. Briefly we are asking for an additional $160 million in balance of payments aid, $40 million in project assistance in El Salvador and Honduras and $100 million for El Salvador's earthquake reconstruction effort. The details of this request are summarized in Attachment B first provided Congress in February.

I think it is important to stress that our review of progress to date has confirmed the NBCCA-CAI strategy as a sound approach to the problems of Central America and to the protection of U.S. interests in the region. Further and more rapid progress is contingent upon a continued partnership among the Congress, the Administration, and the Central American democracies, with the Central American countries summoning the political will to make the necessary political and economic reforms and the United States maintaining adequate levels of financial and technical support.

Special Report No. 162--U.S. Department of State, Agency for International Development, Office of Management and Budget May Be Found in the Committee Files.

REFLECTIONS ON NUCLEAR ISSUES IN SOUTH ASIA

(Presented before the Institute of Strategic Studies, Islamabad)

It is a high honor and a distinct personal privilege for me to address the Institute of Strategic Studies. I am grateful to you for your invitiation and particularly for the opportunity to be one of the first speakers in your splendid new facilities. In America, the role of such "think tanks" is recognized as indispensable for the formulation of sound public policy. This is done by conducting analytical research, by informing the public, by stimulating discussion of policy issues, and by promoting a dynamic interaction among academics, government officials, and concerned citizens. That your institute and other research institutions are promoting this kind of policy dialogue bodes well for the future of Pakistan.

Today, I want to challenge you to consider with me one of the more sensitive issues confronting you and the world. I speak of nuclear weapons and non-proliferation policy. My intention is both to inform you about American policy and views, and to provoke you, if I can, into thinking hard about the pros and cons of nuclear weapons for Pakistan. I venture to do this, despite the evident pitfalls, for two reasons. First, it is my official responsibility to advance United States views. Second, I speak out of respect, appreciation, and warm affection for your country and people. I am anxious that Pakistanis not let events carry them forward willy-nilly but rather that they reflect deeply on the issues before taking a fateful decision. The decision, let me be clear, is Pakistan's to make, and only Pakistan's. But whatever it is, it will have profound consequences not only for Pakistan and its immediate neighbors, but the others as well, including the United States.

When in the past I have touched on nuclear issues, all too often editorials have appeared saying in effect the Americans have nuclear weapons, but they selfishly do not want us to have them. If they are so determined to keep them from us, the argument continues, they must have ulterior motives; thus, we certainly must work all the harder to attain nuclear weapons status. The appeal of such editorials to nationalist fervor is high. It seldom seems to occur to the authors that there might be some disadvantages to nuclear weapons. Moreover, editorialists or politicians or others discussing nuclear issues all too often fail to separate issues related to developing peaceful applications of nuclear energy from issues relevant to weapons programs. What little serious discussion of atomic weapons I have seen, for example in the "Defense Journal", strikes me as relatively unsophisticated. While making the case for a deterrent to offset Indian conventional superiority, critical arguments about the stability of nuclear deterrence are rarely examined. Among the questions you might examine are:

-- Would it be in Pakistan's interest to stimulate India to develop and deploy nuclear weapons?
-- In what circumstances, if any, could nuclear weapons rationally be used?
-- Would the existence of such capabilities be stabilizing or destabilizing?
-- What exceptional command and control measures would be required to avoid mistaken use of nuclear weapons?
-- Are there other policies and other uses for resources that would better advance Pakistan's national interests?
-- Would Pakistan be better or worse off if it gained international cooperative support for its peaceful nuclear program by permitting international inspection of all its facilities?

Before developing further my nuclear theme, let me outline how I view the present state of Pakistan-U.S. relations.

The Pakistan - U.S. Relationship

The relationship between Pakistan and the U.S. has gained new strength and maturity since 1981. We are pursuing -- often in close cooperation -- a number of important shared goals:

-- We share a common abhorrence of the Soviet invasion of independent Afghanistan. The U.S. stands squarely with Pakistan on the need to negotiate a political settlement based on the prompt withdrawal of Soviet troops from Afghanistan and self-determination for the Afghans.

-- We share a common perception of the importance of stability in the Gulf area. Here Pakistan, which enjoys important links both with Iran and the Gulf States, plays a special role in helping to secure peace in a troubled region.

-- We each view relations with the Peoples Republic of China as a cornerstone of our foreign policies -- indeed the United States will always be grateful to Pakistan for the important intermediary role it played in bringing about the normalization of Sino-U.S. relations.

-- Within Pakistan, we have welcomed and supported the restoration of representative, civilian government. While it is for the people of Pakistan to shape their government, we would be untrue to our history were we not to express our conviction that democratic institutions embodying the interests of individual citizens are, ultimately, the best protectors of a nation's security and well-being.

-- We and the government of Pakistan are working together to secure other common objectives; for example, allowing a freer hand to market forces in order to promote faster economic growth, and curbing narcotics production and trafficking in order to maintain a healthy society.

One strength of our maturing relationship is our ability to face up to the areas in which we have differences. One such area relates to nuclear weapons. While we agree that the South Asian subcontinent should be free of nuclear weapons, we differ on how to attain this goal. How the question is resolved is important for us and for you. A miscalculation by either of us could produce a crisis in our relations; end our economic and military assistance programs. Also, within the region, a miscalculation could at best, greatly increase tensions between Pakistan and India; at worst, lead to a nuclear war with perhaps millions of casualties.

The Nuclear Dilemma

May I insert a personal note? It happened that when the United States entered World War II, I was a student at the University of Chicago where, in 1943, under the University football stadium, Enrico Fermi achieved the world's first controlled nuclear reaction. This step was part of a program launched by President Roosevelt who was prompted to act by reports that Nazi Germany was developing nuclear weapons. At the time, I knew nothing of these historic developments. I learned of the nuclear age only in August 1945 when, en route from an army staging area outside Naples to board a transport which was to carry my unit to the Philippines for the invasion of Japan, I read of Hiroshima in the army paper, "The Stars and Stripes." Since we went home instead of to the beaches of Honshu, I have never been one to criticize the use of nuclear weapons in 1945. But, as the potential of these weapons to end civilization as we know it became apparent, I and hundreds of millions more, including Chairman Gorbachev, came to share President Reagan's view that "Nuclear war cannot be won and must never be fought."

Most simply, the nuclear dilemma, the problem and the promise, arises from the fact that the technology which unleashed the atom has the potential to do great good or enormous harm. Splitting the atom can produce needed electrical power and isotopes of immense value for research purposes. But atom splitting and fusion technology can also produce terrifying weapons of mass destruction. It is precisely because fissile material, plutonium enriched uranium, can be used either for peaceful purposes or for weapons that the International Atomic Energy Agency (IAEA), since its creation in the 1950s, has had as one of its central functions the operation of a system of safeguards. The IAEA utilizes various verification techniques to ensure, on an international, almost supranational basis, that fissile material is not diverted from peaceful uses into weapons programs.

The safeguards system is also incorporated into the Non-Proliferation Treaty (NPT). The NPT provides assurance, both to one's neighbors and particularly potential adversaries, that an NPT signatory is not secretly developing weapons. Looked at another way, some view the treaty as constituting a "bargain" between weapons and non-weapons states -- the former accepting a good faith obligation to reduce, and ultimately eliminate nuclear weapons; the latter renouncing nuclear explosives and accepting IAEA safeguards in exchange for assurances of access to nuclear materials and technology.

It is instructive, I think to look at some of the countries that have faced regional threats, had the potential to produce nuclear weapons, but instead chose to renounce such weapons and to sign the Treaty on Non-Proliferation (NPT). The Federal Republic of Germany, Japan, Korea, Taiwan, Turkey, Sweden, and most recently Egypt, are all in this group. Overall, there are over 130 nuclear non-weapons states party to the Treaty.

Each case is different, but the case of neutral Sweden is particularly intersting. At one time, Sweden embarked on an active program to develop nuclear weapons. However, after extended consideration, the Swedes decided they would be more secure without atomic bombs than with them.

The United States, the Soviet Union, and the United Kingdom are parties to the Non-Proliferation Treaty. France has agreed to act as if it were a party. China, while not a party to the Treaty, has agreed to some of the obligations for a nuclear weapons state. The Soviet Union and its allies also cooperate with Western countries in the Interantional Atomic Energy Agency and in the London Suppliers Group -- an informal group of nuclear exporting states which meets regularly to coordinate export and safeguards policy in support of NPT objectives and provisions.

U.S. Non-Proliferation Policy

American policy on non-proliferation is based on a remarkable degree of long-standing consensus between both our major political parties -- a consensus which reflects the intensity of public concern about the threat of nuclear proliferation and the possibility of nuclear war. The U.S., during the 1950s and early 1960s, was the first to share peaceful nuclear technology. Our "Atoms for Peace" program helped a number of countries, including Pakistan, to get a start on the peaceful uses of nuclear energy. As one result, many isotopes are today beneficially used in Pakistani facilities for medical, industrial, and agricultural development. For example, atomically mutated seeds developed in your agricultural nuclear research laboratory in the Punjab played a major role in increasing cotton yields.

On the other hand, early arms control efforts to end the nuclear danger, such as the Baruch Plan, came to naught. With the passage of time, nuclear arsenals grew and increasingly sophisticated delivery systems evolved both in the West and in the Soviet Union and China. Successive American Presidents and Soviet Chairmen, concerned about the risks and responsive to world opinion, sought arms control agreements. Unfortunately, until now there has been more disagreement than agreement. We did reach agreement with the Soviet Union on a ban on atmospheric testing, limitations on anti-ballistic missile systems and some restraints on strategic systems. Progress, albeit minor, has also been made on confidence building measures outside the nuclear arena, like the recently completed pact on notification of maneuvers in Europe.

At Geneva in 1985, the United States and the Soviet Union agreed on a goal of reducing nuclear warheads by fifty percent as a substantial step toward eventual elimination of nuclear weapons. At Reykjavik in 1986, the President and the General Secretary went much further, almost agreeing on the total elimination of nuclear missiles in ten years and on a commitment for reliable verification, a key ingredient of any such nuclear agreement. Negotiations are continuing and I believe the promise of Reykjavik will yet be fulfilled.

The aim of the Reagan Administration, like that of U.S. Administrations before it, is to halt and roll back vertical nuclear proliferation, to prevent further horizontal proliferation, and to steer nuclear development toward peaceful applications in energy, medicine, industry, and agriculture. On the one hand, we will do whatever we can diplomatically to guard against additions to the list of nuclear weapons states. On the other hand, we will provide generous support for fully safeguarded peaceful nuclear development. For example, after Egypt signed the Non-Proliferation Treaty we offered Egypt assistance in the construction of a large nuclear power reactor.

As Reykjavik demonstrated, we share your view about the continued dangers of vertical proliferation by nuclear weapons states. We know that the management and the command and control of nuclear weapons systems are an exacting business that has sorely taxed U.S. and Soviet leaders. Indeed, we are painfully aware of a number of near disasters. We also believe horizontal proliferation would make more likely increasing international instability and catastrophic nuclear war. On the way, the threat also increases of seizure and possible use of nuclear weapons and material by terrorists -- the bane of today's civilized world -- or even by dissident military units in times of civil war. A special U.S. concern is escalation in the event of a nuclear clash between regional states to which the United States or the Soviets may have commitments. A broadening regional nuclear war, drawing the United States and the Soviet Union into confrontation, is one conceivable way in which a catastrophic U.S.-Soviet nuclear exchange could be triggered.

A number of recent statements that I have noted in the Pakistan press about U.S. non-proliferation policy have, in my view, been wide of the mark. Accordingly, I would like for a moment to identify and comment on a few of these misperceptions about our policy, especially vis-a-vis South Asia.

How many in this room believe we are paranoid about the possibility of a Muslim nuclear weapon, that is, "The Islamic Bomb"? In fact, that is not our concern. Our concern would be the same, whether the next proliferator were Christian, Hindu, Jewish, Muslim or Atheist. We are opposed to any further spread of nuclear weapons. The important point is that each country that acquires nuclear weapons adds to uncertainty and heightens the risk of nuclear war. Each country that crosses the threshold weakens the chance that nuclear weapons will be eliminated world-wide. More states acquiring nuclear weapons increases the danger to the world.

How many times have we heard the NPT termed "discriminatory"? Are we indeed imposing our views on a world that does not share our concerns? I think not. Most of the world does share our concerns. The NPT has been adopted by over 130 countries -- over 20 just since 1980. Even among countries not party to the treaty, most agree with the key objectives of the treaty: preventing the further spread of nuclear weapons, fostering peaceful nuclear cooperation under verifiable safeguards, and encouraging negotiations to end the nuclear arms race with a view to general and complete disarmament. The NPT system may be imperfect, but it is a uniquely constructive element in the current international system and a principal asset in worldwide efforts to survive in the nuclear era.

The United States is said to be hypocritical in its attitude -- we supposedly monopolize nuclear knowledge so as to preclude even the legitimate access of LDC's to the benefits of cheap nuclear generated electrical power. Without debating the relative costs of nuclear and fossil energy, I would say that the U.S. is prepared to extend peaceful nuclear cooperation to countries which either adhere to the NPT or adopt full scope safeguards for their nuclear facilities. Most other nuclear suppliers take the same approach. In short, we and others would like nothing more than to help Pakistan solve its energy problems by contributing to the safeguarded development of peaceful nuclear energy in Pakistan.

We are also said to be opposed to Pakistan resolving its energy shortage. But the fact is that energy is one of the key priorities for our economic aid. We are spending over $400 million to assist Pakistan in such diverse areas as energy planning, coal exploration and exploitation, development of renewable energy, rural electrification, and electrical modernization.

How often is the United States charged as well with unfairly discriminating against Pakistan vis-a-vis India? Yet, the fact is that we now have no nuclear cooperation with either Pakistan or India. Our law prohibits us from significant nuclear cooperation with any non-weapon state which is unwilling to have full scope safeguards. We comply with those laws whether the case is Pakistan, India, Brazil, South Africa or Israel.

Since 1977, the Symington Amendment to our Foreign Assistance Legislation has prohibited any direct U.S. assistance to any country which delivers or receives undsafeguarded nuclear enrichment or reprocessing equipment, materials, or technology. It was this law that forced President Carter in 1979, to suspend assistance to Pakistan. This was not a matter of choice for the President and it had nothing to do with U.S. feelings toward Pakistan. It was -- and is -- our law.

It was only in 1981, more than a year after the Soviet invasion of Afghanistan, that the Administration was able to persuade Congress to approve a specific waiver of the Symington Amendment, therby permitting renewed aid to Pakistan. Thus, the truth of the matter is that we do discriminate in favor of Pakistan, since Pakistan enjoys a unique exception from our laws that remain applicable to other countries. The 1981 nuclear waiver permitted us to fund a multi-year assistance program which has had as its basic objective building Pakistani self-confidence by improving its defensive military capabilities, and supporting areas key to continued vigorous economic development. Pakistan now is the fourth largest recipient of U.S. bilateral aid. We are in the last year of an initial $3.2 billion assistance program.

The follow-on multi-year program now before Congress totals just over $4 billion. However, the nuclear waiver legislated in 1981 must again in 1987 be passed by both Houses of Congress or there will be no follow-on program. Thus, the nuclear question remains critical for our cooperation.

Why do we worry so much about nuclear weapons in South Asia? You may well ask: Is it Pakistan's fault that the nuclear menace hangs over South Asia? The answer is, of course, "no", but simply saying "no" does not end the problem, nor does it eliminate the specter of nuclear war. It is not that the U.S. does not appreciate the solemn assurances by Pakistani leaders that Pakistan's nuclear program is entirely peaceful. Indeed, we give full credit to Pakistani leaders that Pakistan's nuclear program is entirely peaceful. Indeed, we give full credit to Pakistan for the bold manner in which it has put forward a series of proposals to India the end result of which, if agreed, would be achievement of a regional solution to this regional problem. Among these are proposals for: simultaneous signature of the non-proliferation treaty; simultaneous acceptance of international inspection or full scope safeguards; bilateral inspection of each other's nuclear facilities; a collective and therefore binding joint declaration by India/Pakistan renouncing the acquisition or manufacture of nuclear weaspons; agreement on a South Asian nuclear weapons free zone.

We, like you, have urged India to respond to these constructive suggestions or to table new ones of its own. The 1985 agreement "in principle" ruling out attacks against each other's nuclear facilities was a welcome first step. Unfortunately, the nuclear dialogue between India and Pakistan so tentatively begun has not been further advanced.

While Pakistan has publicly demonstrated a commitment to regional non-proliferation, I must add in all candor that there are developments in Pakistan's nuclear program which we see as inconsistant with a purely peaceful program. Indications that Pakistan may be seeking a weapons capability generate tension and uncertainty. Is ambiguity in Pakistan's national interest? Would it not be better to reduce tension? To replace uncertainty by near certainty? To accept full-scope safeguards, thereby assuring the world that nuclear programs said to be peaceful, are in fact peaceful?

Behind these questions is another. The gut questions is: would nuclear arms make Pakistan more or less secure? In a recent issue of the "Defense Journal", Brigadier Abdul Rahman Siddioui urges Pakistan to "keep its nuclear options open". His thesis revolves around the theory of deterrence and how nuclear weapons could redress the balance of power which shifted to India after the 1971 war.

I think this analysis of deterrence, which seductive as far at it goes, does not go far enough into the issue. For example, excruciatingly difficult moral and political considerations might well preclude resort to nuclear weapons, as the U.S. concluded during the Korean and Vietnamese wars. Moreover, in strategic terms, were India, already enjoying a marked geographical advantage, also to acquire a greater nuclear weapons capability, Pakistan would have no sane, no rational, use for nuclear weapons.

While India conducted the first South Asian nuclear test in 1974, successive Indian governments have not so far configured this capability into a deployable weapon. Moreover, Prime Minister Gandhi has repeatedly said India does not want to pursue the nuclear weapons option. But he has also said India would hold open the option in anticipation of developments in Pakistan. One may ask, would it be in Pakistan's best interest to push India to produce nuclear weapons?

India has a much greater nuclear potential than Pakistan. Indeed, we are acutely aware of and concerned by the fact that India's nuclear reactors together with India's unsafeguarded reprocessing plants are quite capable of producing large amounts of plutonium usable for weapons. While India, like Pakistan, would have far more to lose than to gain from nuclear weapons, India is large enough geographically, strong enough militarily, and capable enough scientifically to be better able to survive a conflict than Pakistan.

In assessing possibilities for system stability in South Asia, it is important to note that neither Pakistan nor India can, in the foreseeable future, hope to afford the secure delivery systems (for example, missiles in hardened silos or ballistic missile submarines) needed to be confident of what is known in the jargon of nuclear deterrence as a "secure second strike capability."

Two dangerous outcomes would ensue. First, possession of nuclear weapons, especially those vulnerable to attack, would result in a highly unstable situation, with large incentives for each side to consider the preemptive use of nuclear weapons out of fear that the other side would strike first. Second, justifiable doubt about the ability of national nuclear forces to constitute a credible deterrent would force both nations to continue major conventional force modernization programs in addition to their nuclearization efforts--a very expensive proposition as we in the West unfortunately have discovered.

One must also consider the impact of a decision to acquire nuclear weapons on Pakistani relations with other nations, including the United States. Our ability under U.S. law to provide economic and security assistance to Pakistan remains dependent on Pakistani restraint in the nuclear area. In 1985, Congress legislated a new annual requirement that, for our assistance program to continue, the President must certify that Pakistan does not have a nuclear explosive device and that our aid substantially reduces the risk it will obtain one. The President has twice so certified. For the future, I would note that it is open to question whether the President could so certify were he to conclude that Pakistan had in hand, but not assembled, all the needed components for a nuclear explosive device.

As I noted above, we must this year win approval of both Houses of Congress to extend the present Symington waiver. Thus, Congress, not just the President, will decide if we are to be able to continue aid past 1987. Were Pakistan to sign the NPT or to adopt full-scope safeguards, a positive outcome would be virtually assured.

Relations with India

Pakistan has seized the negotiating initiative with a series of proposals that would provide a regional settlement to what is admittedly a regional problem. But, if Pakistan's non-proliferation policy, however far-sighted it may be, depends on the Indian response to its proposals, does this not amount to making Pakistan's future hostage to Indian decisions? If Indian failure to respond positively leads to deadlock and continued drift forward in national nuclear weapons programs, which country stands to lose the most? With regret I must say that in my opinion both countries would be large losers but that Pakistan's loss would be the greater.

We share your concern over regional tensions. We regret that after three wars, distrust, even paranoia, runs deep in both countries. We applaud President Zia's "peace offensive" and Prime Minister Junejo's attempts to normalize relations with India. Both countries, in our view, have much to gain from solid friendly relations. If we and the Soviets can dialogue and negotiate to reduce tensions, why not India and Pakistan? Dialogue can advance both in expanding areas of agreement and in identifying a verification mechanism or mechanisms to assuage the considerable doubts felt by both parties about the other's intentions and capabilities.

To advance the political dialogue, I believe it is in Pakistan's interest to act unilaterally to sign the NPT. Bold Pakistani action to take the high moral ground could well forestall Indian acquisition of a nuclear weapons capability. If not, Pakistan would still be free under the treaty to reconsider its options. In the interim, such bold action would remove a significant potential stumbling block to U.S. Congressional approval of the future security assistance Pakistan needs for its defense. Even more importantly, it would open the possibility for significant international assistance for civil nuclear energy development in Pakistan. Completion of the proposed 1,000 megawatt chasma nuclear energy reactor would become a realizable goal far sooner with international help, both technical and financial, than without it.

Pakistan, as we are all aware, has recently gone through a period of high tension in her relations with India. Fortunately, common sense prevailed and a process of force deescalation has been negotiated. That war could have loomed so close when there appeared to be no reason for concern other than the reciprocal misperceptions of each other's military exercises is yet another proof of the existence of dangerously intense mutual distrust. Effort is urgently needed to place Indian-Pakistani relations on a new basis.

I would think that initially a range of confidence-building measures is required. Certainly, confidence in each other's intentions will not be enhanced by either country prusuing a nuclear weapons option. The recent "war scare" was bad enough. How would the leaders and the general public have felt had there been a "red alert" proclaimed while Pakistan or India or both were believed to have or known to have nuclear weapons in their arsenals? That frightening prospect, I submit, merits your most careful consideration.

Soon Pakistan will have to choose among the renunciation of nuclear weapons, their overt development, or continuation of a policy of ambiguity. Each course has for Pakistan its advantages and disadvantages. But truly Pakistan's decision is a fateful one. Indeed, the future of hundreds of millions of people in South Asia is involved. I hope your choice will be made only after full discussion and informed debate. May God grant you and Pakistan's other decision-makers the wisdom to make the right choice for Pakistan, for South Asia, and for the world. Thank you.

LETTER FROM HOWARD M. FRY

MAR 17 1987

LEGAL OPINION

SUBJECT: Authority of the A.I.D. Administrator to Modify Titles and Duties of Assistant Administrators Subsequent to Confirmation by the Senate

This memorandum considers whether the Administrator of A.I.D. has legal authority to modify the titles and duties of A.I.D. Assistant Administrators, subsequent to confirmation by the Senate of their original appointment as Assistant Administrators, without renomination of these officers by the President and reconfirmation by the Senate.

In summary, as analyzed below, I conclude that the A.I.D. Administrator has such authority. This authority is provided by statute and Executive Order. The exercise of such authority is consistent with the terms of the President's nomination and of the Senate's confirmation of A.I.D. Assistant Administrators, which do not specify the title or duties of these officers. This conclusion is strengthened by the consistent interpretation and implementation of this authority by a succession of A.I.D. Administrators, and the practice of other agencies with similar statutory authority.

I. Sources of Legal Authority in Statute and Executive Order

The authority of the A.I.D. Administrator to modify the titles and duties of Assistant Administrators originates in Sections 621 and 624 of the Foreign Assistance Act of 1961, as amended ("FAA")(22 U.S.C. 2381 and 2384).

FAA Section 621(a) (22 U.S.C. 2381(a)) provides the President with general authority to delegate authority provided under the FAA to any agency or officer of the United States, and it authorizes the head of any such agency to redelegate such authority. The statute provides:

> "The President may exercise any functions conferred upon him by [~~chapter 1 of~~ the FAA] through such agency or officer of the United States Government as he shall direct. The head of any such agency or such officer may from time to time promulgate such rules and regulations as may be necessary to carry out such functions, and may delegate authority to perform any such functions, including, if he shall so specify, the authority successively to redelegate any of such functions to any of his subordinates."

FAA Section 624(a) (22 U.S.C. 2384(a)) provides more specific authority to the President to appoint the senior staff of the Agency for International Development. This subsection provides that "*[t]he President may appoint*, *by and with the advice and consent of the Senate*, *twelve officers* in the agency primarily responsible for administering part I [of the FAA] (emphasis added)." 1/ Significantly, Section 624(a) defines no

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1/ In 1979, the President abolished one of the twelve positions in A.I.D. for which he was authorized to appoint an officer, leaving eleven appointive positions. *See* Reorganization Plan No. 2 of 1979 (44 F.R. 41165, 93 Stat. 1378 (July 1, 1980)), Section 7. One of these eleven positions is designated as A.I.D. Administrator in Executive Order No. 12163 (44 F.R. 56673 (Sept. 29, 1979)), Section 1-103(b).

specific titles or duties of the A.I.D. officers whom the President may appoint, subject to Senate confirmation.

A separate statutory provision authorizes the President to designate the titles of A.I.D.'s senior staff. FAA Section 624(b) (22 U.S.C. 2384(b)) provides that "[w]ithin the limitations established by . . . [Section 624(a)], the President may . . . designate the title of, any officer appointed pursuant to the authority contained in . . . [Section 624(a)]." In Section 624(b), therefore, Congress authorized the President to designate the titles of each A.I.D. officer that he appoints. Congress did not retain authority to review such designations through the general authority to confirm A.I.D. senior staff reserved in Section 624(a).

Through a series of delegations and reservations of statutory authority, the President has determined the scope of the authority available for exercise by the A.I.D. Administrator. The President has specifically reserved the authority to appoint the eleven officers authorized by FAA Section 624(a). See Executive Order No. 12163 (44 F.R. 56673 (Sept. 29, 1979)), Section 1-701(c). However, the President has delegated to the A.I.D. Administrator the authority provided in FAA Section 624(b) to "designate the title of" each Assistant Administrator. See Executive Order No. 12163, supra, Section 1-102(1) (delegating to the Director of the International Development Cooperation Agency (IDCA), who is also the A.I.D. Administrator, all authority under the FAA not expressly reserved to the President). In a subsequent order, the President provided explicitly that A.I.D. Assistant Administrators "shall continue to exercise such functions as the [A.I.D.] Administrator deems appropriate." See IDCA Delegation of Authority No. 1 (44 F.R. 57521 (Oct. 1, 1979)), Section 1-202.

In summary, FAA Section 624(a) authorizes the President to appoint, subject to Senate confirmation, A.I.D.'s top "officers." Section 624(a) specifies no particular titles or duties for these officers. Section 624(b) authorizes the President, without Senate confirmation or review, to designate the titles of such officers. Section 621(a) authorizes the President to delegate to the A.I.D. Administrator, and the A.I.D. Administrator to redelegate to his Assistant Administrators, the authority provided under Section 624(b) and other sections of the FAA. Under the authority of Section 621(a), the President has delegated to the A.I.D. Administrator his Section 624(b) authority to designate titles of Assistant Administrators, as well as the authority to determine the functions of Assistant Administrators. The Administrator has exercised this authority to determine the functions to be served by his Assistant Administrators, and from time to time he modifies these functions as the needs of the Agency require.

In Section 624(a), Congress has required only Senate confirmation of the initial appointment by the President of A.I.D.'s senior staff. It has not required Senate confirmation of the designation of titles or duties of these senior staff. Instead, in Section 621(a) it explicitly authorized the President, and also (by delegation of authority from the President) the A.I.D. Administrator, to make these determinations without Senate review. This statutory framework allows the A.I.D. Administrator to modify the titles and duties of Assistant Administrators, once such officers have been appointed by the President and confirmed by the Senate, without requiring the President to resubmit such officers for confirmation by the Senate. [2]

II. The Terms of Nomination and Confirmation of Assistant Administrators

Consistent with the statutory framework for appointment and confirmation of A.I.D. Assistant Administrators, the President has consistently nominated and the Senate has confirmed individuals to serve as A.I.D. Assistant Administrators, without specifying the offices the individuals will head in A.I.D. or the officers' titles.

Over the past five years, for example, the President has nominated nine individuals to serve as A.I.D. Assistant Administrators. In each case, the nomination, which was transmitted to the Senate for confirmation, identifies the name of an individual who will serve as an A.I.D. "Assistant Administrator," without identifying the title of that individual or the name of the A.I.D. Bureau which the individual would head. [3] The Senate likewise confirmed the nomination of each individual as an A.I.D. "Assistant Administrator," without specifying offices or functions. [4]

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[2] Sections 621 and 624 allow greater flexibility in designating titles and functions for senior positions in A.I.D. than certain statutes governing other agencies. For example, the statute which establishes senior positions in the Department of State provides explicitly that "[t]here shall be in the Department of State, in addition to the Secretary of State, a Deputy Secretary of State, an Under Secretary of State for Political Affairs, an Under Secretary of State for Economic and Agricultural Affairs, an Under Secretary of State for Management, and fourteen Assistant Secretaries of State." 22 U.S.C. 2652 (emphasis added). Each of these officers is appointed by the President, subject to confirmation by the Senate. 22 U.S.C. 2653. Another statute provides even more specifically that "[t]here shall be in the Department of State an Assistant Secretary of State for Human Rights and Humanitarian Affairs who shall be responsible to the Secretary of State for matters pertaining to human rights and humanitarian affairs (including matters relating to refugees, prisoners of war, and members of the United States Armed Forces missing in action) in the conduct of foreign policy." FAA Section 624(f)(1) (22 U.S.C. 2384(f)(1)(emphasis added). An individual appointed to this position is also subject to confirmation by the Senate. These statutes define far more specifically the titles and duties of several State Department senior staff than FAA Section 624(a), which provides generally that "[t]he President may appoint, by and with the consent of the Senate, twelve officers" in A.I.D. (emphasis added).

[3] *See* nomination of: Richard E. Bissell, 132 *Cong. Rec.* S 12039 (daily ed. August 15, 1986); Thomas R. Blank, 132 *Cong. Rec.* S 9517 (daily ed. July 22, 1986); Dwight A. Ink, 131 *Cong. Rec.* S 7521 (daily ed. June 5, 1985); Mae N. Peden, 131 *Cong. Rec.* S 44 (daily ed. January 3, 1985); Cathryn C. Semerad, 130 *Cong. Rec.* S 12260 (daily ed. September 27, 1984); Mark L. Edelman, 130 *Cong. Rec.* S 12260 (daily ed. September 27, 1984); Richard A. Derham,. 130 *Cong. Rec.* S 129 (daily ed. January 24, 1984); Frank J. Donatelli, 129 *Cong. Rec.* S 14080 (daily ed. October 18, 1983); Charles W. Greenleaf, 128 *Cong. Rec.* S 16678 (daily ed. July 16, 1982).

[4] *See* Senate confirmation of: Richard E. Bissell, 132 *Cong.* Rec. S 15664 (daily ed. October 8, 1986); Thomas R.

An individual who has been nominated by the President, confirmed by the Senate, and subsequently appointed to serve as an A.I.D. "Assistant Administrator" continues to serve as an Assistant Administrator even if an A.I.D. bureau is reorganized, the individual's responsibilities are modified, or the A.I.D. Administrator assigns the individual to head a different bureau. Such changes in staff responsibility are consistent with the procedure adopted by the Executive Branch and by the Senate for the Senate's advice and consent with respect to appointment of Assistant Administrators.

III. History of Agency Interpretation and Practice

Consistent with the statutory framework and the terms of the appointment and confirmation of Assistant Administrators discussed above, the A.I.D. Administrator has on occasion modified the titles and duties of Assistant Administrators. The reoranization of bureaus within the Agency has sometimes required modification of the areas of responsibility of Assistant Administrators, and on other occasions the Administrator has reassigned Assistant Administrators to head a different bureau within the Agency.

For example, in the early 1970s, Robert O'Connor and Robert Nooter were confirmed by the Senate as A.I.D. Assistant Administrators. Mr. O'Connor served originally as Assistant Administrator for the Bureau on Asia, and Mr. Nooter served as Assistant Administrator for the Bureau on Vietnam. The two Bureaus were subsequently merged and were redesignated the Bureau for Supporting Assistance (SA). Without renomination by the President and reconfirmation by the Senate of the two Assistant Administrators, the A.I.D. Administrator at that time appointed Mr. O'Connor to serve as Assistant Administrator for the new SA Bureau, and Mr. Nooter, who retained his title as Assistant Administrator, to serve as his Deputy. Subsequently, in the late 1970s, Mr. Nooter was reassigned to serve as Assistant Administrator for the Near East Bureau.

In the past six years, similar reassignments have been made in at least four instances. In 1982, Mr. Francis Ruddy, Assistant Administrator for the Africa Bureau, was transferred to the position of Assistant Administrator without portfolio. In 1985 Ms. Antoinette Ford, Assistant Administrator for the Near East Bureau, was transferred to the position of Assistant Administrator for Arab Donor Coordination. At the same time the Asia Bureau and the Near East Bureau were consolidated into a new Bureau on Asia and the Near East (ANE). Mr. Charles Greenleaf was transferred from the position of Assistant Administrator for the Asia Bureau to the position of Assistant Administrator for the new ANE Bureau. Mr. Greenleaf's recent departure from the Agency created a vacancy that the A.I.D. Administrator has filled with Ms. Julia Chang Bloch, who previously served as Assistant Administrator for the Bureau for Food for Peace and Voluntary Assistance. While each of these officials was confirmed by the Senate as an Assistant Administrator, none was renominated and reconfirmed upon transfer to the new position within the Agency.

Blank, 132 Cong. Rec. S 15664 (daily ed. October 8, 1986); Dwight A. Ink, 131 Cong. Rec. S 14227 (daily ed. October 25, 1985); Mae N. Peden, 131 Cong. Rec. S 9752 (daily ed. July 18, 1985); Cathryn C. Semerad, 130 Cong. Rec. S 13640 (daily ed. October 4, 1984); Mark L. Edelman, 130 Cong. Rec. S 13640 (daily ed. October 4, 1984); Richard A. Derham, 130 Cong. Rec. S 14552 (October 11, 1984); Frank J. Donatelli, 129 Cong. Rec. S 15861 (daily ed. November 9, 1983); Charles W. Greenleaf, 128 Cong. Rec. S 10827 (daily ed. August 18, 1982).

This history of agency practice, and the absence of previous objections from members or committees of the Senate of which this Office is aware, strengthens the conclusions reached in this Memorandum that the practice is consistent with statutory authority.

IV. Practice of the Department of Justice

The conclusions in this Memorandum are consistent with those of the Department of Justice with respect to its own Assistant Attorneys General.

Offices of the Assistant Attorneys General are established by a statute similar to that enumerating the positions of A.I.D. Assistant Administrators. 28 U.S.C. 506 provides that "[t]he President shall appoint, by and with the advice and consent of the Senate, ten Assistant Attorneys General, who shall assist the Attorney General in the performance of his duties." Like 22 U.S.C. 2384(a), which provides for twelve A.I.D. officers, 28 U.S.C. 506 does not prescribe the titles of the Assistant Attorneys General or the units within the Department of Justice which each will head.

Consistent with the general authority provided in 28 U.S.C. 506, the Office of Legal Counsel in the Department of Justice has consistently maintained that the Attorney General has authority to reassign Assistant Attorneys General from one unit to another without resubmitting their names to Congress for confirmation. Furthermore, the Attorney General has frequently exercised this authority. Between 1936 and 1983, the Attorney General reassigned Assistant Attorneys General, without resubmitting the individuals for confirmation, at least ten times. A memorandum issued on October 27, 1983, by Theodore B. Olson, Assistant Attorney General for the Office of Legal Counsel in the Department of Jutice, supports the conclusion of his Office concerning the Attorney General's authority to reassign Assistant Attorneys General and recounts instances in which this authority has been used.

CONCLUSION

The A.I.D. Administrator has unambiguous legal authority by statute and Executive Order to designate the responsibilities of Assistant Administrators once each officer has been nominated by President, confirmed by the Senate, and appointed as an Assistant Administrator. This authority includes the authority to modify the responsibilities of a bureau for which an Assistant Administrator is responsible, or to assign the Assistant Administrator to head a different bureau. This legal conclusion is consistent with the terms of the nomination and confirmation of Assistant Administrators, the practice of this Agency for many years, and the views of the Department of Justice, which is the Executive Branch agency with chief responsibility for interpretation and enforcement of law.

Howard M Fry

Howard M. Fry
General Counsel
Agency for International Development

PREPARED STATEMENT OF SENATOR LARRY PRESSLER

Senator Pressler. Mr. Chairman, the proposals for a major increase in U.S. contributions to the multilateral lending institutions give me a great deal of concern.

For the past 3 years we have witnessed a steadily growing and potentially explosive debt burden situation in the developing nations. Only last week Brazil announced it would refuse to continue paying interest on its huge foreign debt. Others have indicated they might follow suit. Needless to say, this is an extremely unhealthy situation for the entire world economy.

My principal concern, to which I hope the witnesses will respond, is whether we can solve this gigantic debt burden problem by lending even more money to the developing nations.

In my home State of South Dakota, and throughout the depressed Midwestern farm States, thousands of farmers and ranchers, as well as teachers, workers, and small businessmen, have been forced out of business because of low commodity prices, high expenses, and an inability to obtain affordable credit. The farmers in my State are asking me, how can Congress pour money into low interest loans to other nations when farmers are unable to receive similar benefits.

When I saw the proposed 120-percent increase for the multilateral development banks (MDBs), including the fiscal year 1987 supplemental request, it really astounded me. I realize the entire story here is likely to be complicated, and many good arguments will be presented in defense of this increase. But I hope the witnesses will keep in mind the perspective of our own farmers and ranchers. How does one explain, let alone justify, to them a $1.2 billion increase for the MDBs when they are experiencing an economic depression of their own?

So, Mr. Chairman, I hope the witnesses will focus some attention on these concerns: Is it wise to continue piling more debt on these poor countries, and how do we justify such major foreign aid increases to American farmers, ranchers, and small businesses.

Mr. Chairman, I also ask that a Heritage Foundation memorandum entitled "Why the Soviets Do Not Belong at the World Bank" be included in the record of today's hearing.

WHY THE SOVIETS DO NOT BELONG AT THE WORLD BANK

World Bank President Barber Conable recently declared his willingness to consider allowing the Soviet Union to join the 151-member international body. Before Moscow could join the Bank, it would have to be admitted to the International Monetary Fund (IMF). Permitting Soviet membership in either organization would be a serious mistake for the West, and it would make a mockery of the World Bank's and the IMF's purposes. As important, the Kremlin's economic philosophy is completely contrary to the free market goals that the U.S. should promote through the IMF and the World Bank. Soviet membership would funnel U.S. taxpayers' money, which accounts for 20 percent of the budgets of these organizations, to finance Soviet bloc subversion of the free world and to bail out the Russian economy--hamstrung by the fallacies of the Marxist system. Moreover, Soviet membership would give Moscow yet another U.S.-based institution to fill with espionage agents thinly disguised as technocrats.

Much controversy surrounds the proper role of the IMF and the World Bank. But one thing is certain: the U.S. must use these organizations to promote free markets between countries and within countries. Any other function for the IMF and the World Bank would be contrary to basic U.S. interests and justly call into question continuing U.S. support for and participation in these bodies.

Under Soviet communism, the totalitarian state plans the entire economy, dictating wages, prices, and all production and distribution

decisions. Private ownership of the means of production and independent labor unions are banned. A major IMF function, however, is to keep economic data on member countries, and since supply and demand do not determine wages and prices in the USSR, most Soviet economic data are worthless. Further, the Soviet system poses a fundamental contradiction for the World Bank and the IMF. These organizations are supposed to make lending decisions based solely on economic considerations. Yet in the USSR, politics and economics are inseparable.

Over many years the Kremlin has denounced the IMF and the World Bank as tools of U.S. economic policy. Some supporters of Soviet membership suggest that the recent Soviet interest in world economic organizations stems from a genuine desire to trigger Soviet economic growth and raise Soviet living standards by working with the free economies. But there is absolutely no evidence that the Kremlin intends to liberalize the Soviet economy. By contrast, the People's Republic of China has begun to move away from communism by encouraging enterprise and allowing the market to set many prices. The Soviets have taken no such steps. And it is unlikely that the World Bank and the IMF would have any more luck reforming the Soviet economy than they have had in changing the economies of such member states as Romania or Poland.

The real reason for Moscow's interest in the IMF probably is the drop in Soviet foreign currency earnings from $32 billion in 1985 to $26 billion this year, thanks to the fall in oil prices. Moscow needs this hard currency to support its numerous client states, such as Cuba and Nicaragua, and to foot the bill for terrorist activities around the globe. Soviet membership in the IMF and the World Bank would force U.S. taxpayers, through their massive contribution to these organizations, to fund activities directed specifically against U.S. interests. Money would go directly to improving the Soviet's military capacity by building roads, airports, or truck factories. Meanwhile, scarce World Bank and IMF funds would be diverted from such deserving Latin American and Asian countries as Argentina and the Philippines.

Soviet membership in the IMF and the World Bank thus would frustrate U.S. attempts to promote a prosperous world through free enterprise. Future progress in this direction would have to be bought every step of the way with special favors and concessions to the Soviets. And just as the United Nations in New York City serves as a base for Soviet spying against the U.S., the IMF and the World Bank would give the Kremlin a critically important new espionage outpost in Washington, where they have their headquarters.

The Soviet Union gives no indication of desiring to liberalize its society or to reform its economy. Soviet membership in the IMF and the World Bank would harm U.S. interests and erect new obstacles to the achievement of U.S. goals. Even discussions with the USSR on this matter would no doubt put pressure on the U.S. to make various economic concessions. Rather than putting out the welcome mat for the Soviets, World Bank President Barber Conable should reexamine the membership in that body of such countries as Afghanistan, Ethiopia, Iran, Libya, Poland, Romania, and Vietnam. The Reagan Administration should voice its strong determination to block any consideration of Soviet membership in the World Bank or the IMF.

Edward L. Hudgins, Ph.D.
Walker Fellow in Economics

LETTER FROM SENATOR LARRY PRESSLER

January 7, 1987

The Hon. Spyros Kyprianou
President of the Republic of Cyprus
Nicosia, Cyprus

Dear Mr. President:

During the 41st Session of the United Nations General Assembly in New York late last year, I had the honor of serving as a U.S. representative.

One of my duties as a U.S. representative to the General Assembly session was the delivery of a statement regarding the U.S. position opposing a Libyan resolution criticizing the U.S. retaliation against Libyan acts of terrorism. This resolution was adopted by the General Assembly, although there were many abstentions, and the Cyprus representative voted with Libya.

As one who considers himself to be a good friend of Cyprus, I was somewhat surprised by this vote against the U.S. position. The problem of terrorism is an issue about which both of our nations are concerned. That is why I felt that the compelling evidence against Libya warranted support for the U.S. position. In dealing with terrorism, forceful action is required on occasion. Indeed, the apparent absence of Libyan terrorist activity since the U.S. retaliatory strike against Libyan military targets last April suggests that this is true.

I spoke with your Ambassador to the United Nations about the vote of Cyprus. He referred to the Harare Declaration in explaining the Cypriot position. However, again speaking as a true friend of Cyprus, I am disappointed that the Cyprus vote apparently indicates disagreement with the clear evidence presented in the U.S. position. I would be most appreciative of a response from you which could indicate at least some agreement with our position in this matter.

Thank you for your consideration of my thoughts on this important issue. I look forward to hearing from you soon and wish you the best of success in your leadership efforts throughout this year.

Sincerely,

Larry Pressler
United States Senator

PREPARED STATEMENT OF DAVID J. SADD

The National Association of Arab Americans (NAAA) is pleased to present testimony on the Middle East portion of the Administration's fiscal year 1988 foreign aid request. As the principal lobbying organization representing the three million Americans of Arab descent -- as well as a large and growing number of other Americans who share our viewpoint -- NAAA wants not only to promote good relations between the United States and the Arab countries of the Middle East, but also to see that US tax dollars are spent in the most effective way for the protection and promotion of US national interests in that region.

In these times of fiscal austerity, the American people continue to be concerned with controlling the enormous budget deficit and promoting fiscal responsibility. We, as Arab Americans, share these concerns. In presenting this testimony, we are aware of the fact that the foreign aid bill is subject to cuts under the requirements of the Gramm-Rudman-Hollings deficit reduction act. We believe that all recipient countries should be expected to bear their fair share of the burdens associated with these reductions. We further believe that it is neither wise nor justifiable to earmark enormous amounts of aid for a few countries and then require the remaining countries of the world to divide up a drastically reduced foreign aid total.

It is our intention in this testimony to offer our support, in general, for the president's fiscal year 1988 foreign aid requests for the Arab countries. In some cases, such as Morocco and Tunisia, and the occupied territories of the West Bank and Gaza, we believe that these requests represent the absolute minimum amount necessary to further US interests in the region. In the case of Lebanon, it is our contention that $775 thousand is woefully inadequate to do so. We urge Congress to remember in its consideration of the foreign aid bill that the Administration, too, has taken the mood of the American people into consideration in preparing its foreign aid proposals. It has, therefore, already pared its requests for the Arab countries to the bone. We believe that additional cuts would not be in the interests of the United States.

I. IMPORTANCE OF THE ARAB WORLD

The Arab world spans two continents, stretching from Mauritania and Morocco on the west coast of Africa to Oman on the southeast corner of Asia's Arabian peninsula and Iraq north of the Gulf. The 21 Arab countries cover nearly 5.4 million square miles, an area that is one and a half times the size of the United States. Over 187 million people live in those countries, and the number is likely to grow substantially in the years to come as the result of high population growth rates.

Some of the world's most strategic areas are contained in the Arab world. Morocco forms the southern part of the important Strait of Gibraltar, which guards the western entrance to the Mediterranean Sea. Egypt's Suez Canal allows Indian Ocean shipping to enter the Mediterranean without having to circle the southern tip of Africa. Some of the world's richest oil reserves are found under Arab soil. This is particularly significant in view of the fact that other oil producers like Mexico, Canada, and the United Kingdom are rapidly depleting their own reserves.

The United States has friendly political relations with most of the 21 countries of the Arab world. Some of these countries have granted the United States access to their military facilities under certain circumstances and have supported the US position on many issues of mutual concern.

On an economic level, the Arab world has proven to be invaluable to our country. At a time when US trade deficits with the world as a whole keep breaking record levels, the United States has had a trade surplus with the Arab world countries for each of the last four years. On the basis of the Commerce Department's formula that each $1 billion worth of US exports creates or sustains 25,000 American jobs, the Arab world since 1980 have provided more than 2 million jobs for Americans, and billions of dollars worth of earnings.

II. GRAMM-RUDMAN-HOLLINGS AND FOREIGN AID

At a time when one of the overriding concerns of legislators and the public alike is to reduce the enormous budget deficit, the foreign aid bill takes on an even greater importance and urgency. If the United States is to continue to meet its responsibilities and promote its national interests in the region, it is essential that adequate levels of aid be extended to all of our friends in the Middle East. The Reagan Administration's aid proposals for the Arab world represent in most cases a minimum amount necessary to further

American interests in the region--and in some cases already appear to be inadequate to do so.

We are concerned that the Gramm-Rudman-Hollings deficit reduction act will be used to secure unwise reductions in already small aid levels for certain Arab countries, while Israel, with enormous yearly grants of military and economic aid, will escape most cuts altogether. Last year we warned that many small aid-receiving countries would suffer a disproportionate aid reduction under the provisions of Gramm-Rudman-Hollings if Israel and Egypt, the two largest recipients of aid, were exempted from the reductions required under the act. Despite protestations in some committees that all countries would be required to share proportionately in any prospective cuts, countries which did not have their aid specifically earmarked were forced to accept even more serious reductions from a greatly-reduced foreign aid appropriation.

We believe that, despite the importance of dealing with the budget deficit, aid levels to the Arab countries below the Administration requests will be inadequate to meet the needs of the recipient countries and therefore would not be in the interests of the United States. But if such reductions must take place, all countries should be asked to bear their fair share. We believe that Israel, Egypt and the base rights countries must not be exempted from any cuts under the provisions of Gramm-Rudman-Hollings.

III. RECOMMENDATIONS

Our specific recommendations for the Administration's fiscal year 1988 foreign aid requests are given below. In addition and for the record, NAAA supports the Administration's aid requests for Djibouti, Mauritania, Somalia, and Yemen.

Aid to Egypt

The $2.299 billion request in military and economic assistance, including P.L. 480 assistance, for Egypt is slightly less than the level proposed by the Reagan Administration for fiscal year 1987. We support the President's request and recommend its approval by Congress.

The case for aid to Egypt on this scale is very strong: Egypt genuinely needs the aid that the Administration has requested. Its 50.5 million people, unfortunately, have one of the lowest standards of living in the Arab world, with a per capita GNP of only $720. This is less than one-seventh of the per capita GNP of Israel -- a country whose population is one-twelfth its size -- which will receive substantially more aid. Despite the glaring difference in the level of economic development between Egypt and Israel, however, the President's request amounts to a spending of less than $46 for every citizen of Egypt compared to an expenditure of $723 for every citizen in Israel.

The aid requested for Egypt is also vital because of economic difficulties that Egypt is facing that are largely beyond its control. The declining worldwide price of oil has caused both a decline in Egypt's own oil revenues and a sharp drop in Egyptian workers' remittances from OPEC countries.

Egypt has long been an important friend of the United States and has worked consistently to promote the Middle East peace process. Egypt has granted the US landing privileges at its naval and air facilities under certain circumstances. It provided support for U.S. transshipment of ammunition to Lebanon when the American marines were there, and has cooperated with the United States in taking action to deal with threats to Sudan, its southern neighbor, in the past.

The West Bank and Gaza

Last year, NAAA supported the Administration's fiscal year 1987 request of $18 million for activities to promote the living and employment conditions of Palestinians residing in the occupied West Bank and Gaza. We were disappointed that after the effects of Gramm-Rudman-Hollings and other foreign aid cuts, those funds were reduced to only $8 million.

This year the Administration is requesting $12 million for the West Bank and Gaza. It has announced in addition that $7 million in ESF funds for Jordan will be used by Jordan for programs in the West Bank and Gaza. We fully support these requests, and believe they represent the minimum amount necessary for the program to be effective.

The small aid program funding economic and social development in the West Bank and Gaza has perhaps the highest impact of any American aid program anywhere in the world. It provides economic assistance directly through such private voluntary organizations (PVOs) as American Near East Refugee Aid (ANERA), the American-Mideast Educational and Training Services (AMIDEAST), Catholic Relief Services (CRS), and Save the Children Foundation (SCF).

We applaud the Administration's interest in finding ways to stimulate private sector activity in the West Bank and Gaza and its emphasis on supporting institutions which can serve to channel funds to private borrowers for productive uses in agriculture and industry. The Administration's increasing focus on aid to the occupied territories will help to provide the essential tools for economic development of the local population. We can only hope that Congress, too, will see the importance of this aid, and not continue to sacrifice it to political and budgetary considerations.

Unfortunately, Israeli interference in this small program has until recently been widespread, thereby reducing its effectiveness. According to a report three years ago by Meron Benvenisti, the former deputy mayor of Jerusalem, between 1977 and 1984 only 23.1 percent of the industrial expenditures and 35.6 percent of the agricultural expenditures endorsed by AID had been approved by Israel. U.S.-funded projects that did not give the Palestinians a stake -- such as public works projects that Israel would otherwise have had to pay for itself -- were given ready approval by the Israeli authorities. Thus, Israel was diverting US aid from its intended objectives.

This is just one aspect of a 20-year-old Israeli policy of stifling Palestinian economic initiatives. Palestinians are denied permission to dig new irrigation wells, discouraged in their attempts to form cooperatives, limited in their planting of trees and vegetables, constrained from selling their produce in Israel, turned down -- or made to wait indefinitely -- when applying for licenses to start up a business project or construct a building, and deprived of adequate credit and money market facilities. PVOs have enumerated cases in which the Israeli government delayed or denied clearance to proceed with individual subprojects, particularly those of a development nature.

While several PVOs have reported receiving greater cooperation from Israeli authorities during the present coalition government than they did under the previous Likud government, it is important that the U.S. Government remain vigilant to ensure that that cooperation continues. We urge Congress and the Administration to press Israel not to obstruct PVO-administered projects on the West Bank.

Aid to Jordan

Perhaps no other country in the Middle East has done as much as Jordan in recent years to promote the search for peace in the region. For over a year, King Hussein made a strong personal effort, despite pressures from hardliners, to revive the stalled Middle East peace process. While the Jordanian initiative remains on hold -- for the present at least -- Jordan's ability to continue as a central actor in the peace process depends largely upon the willingness of the United States to help it in meeting its legitimate and very pressing economic and military needs.

Jordan is an important friend of the United States, both politically and strategically. Few would deny that it is an essential key to Middle East peace. Unfortunately, the United States has not given Jordan the kind of moral and material support in recent years that it needs and deserves. The indefinite postponement last February of a sale of advanced fighter aircraft to Jordan, for example -- a sale that the Reagan Administration had determined was in the US national interest -- was a severe blow for U.S. credibility and a setback for Jordan's security needs.

We believe that the aid level the Administration has proposed for Jordan for fiscal year 1988 is woefully inadequate. While the Administration's ESF request for fiscal year 1988 has remained at the $18 million level requested last year, the proposed 1988 level of security assistance under the FMS program, MAP and IMET would be reduced from $117 million to $53.8 million.

We are particularly concerned that the Administration's aid levels for Jordan not be cut substantially by Congress to meet the budget requirements of Gramm-Rudman-Hollings. Our interests in Jordan are too important to impose on it a disproportionate share of the burden of necessary budget cuts. We believe that the level of aid this year for Jordan is already too low. We are gratified, however, that the President has requested this year that all ESF funds for Jordan be in the form of grants.

Jordan, with a population of almost 2.66 million, has a per capita income of $1,570, less than one-third that of Israel. Yet the Administration's aid request for Jordan is only $71.8 million -- compared with $3 billion for an Israel with a much higher standard of living. In addition, the $12 million in FMS credits for Jordan, though extended at concessionary rates, will have to be repaid. We urge that, to help compensate for the relatively low levels of aid to Jordan, FMS loans be extended with repayment forgiven, as is the case with both Israel and Egypt.

Aid to Lebanon

While we recognize the difficulties associated with extending aid to Lebanon under present conditions there, we feel that the $775,000 total of economic and military assistance to Lebanon that the Administration has requested is wholly inadequate to meet its needs. Indeed, such sums will do virtually nothing to help promote stability in Lebanon, nor will they contribute to the achievement of a unified, sovereign Lebanon, free from external forces and able to secure its territorial borders.

Tragically, continued bloodshed in Lebanon has made U.S.-sponsored relief efforts even more important. U.S. private voluntary organizations, such as Save the Children, Catholic Relief Services, the YMCA in Lebanon, and UNICEF, have made significant progress in providing assistance to the victims of Lebanon's conflict. If funds for Lebanon are not increased, many programs administered by these PVOs will come to a halt. We urge this subcommittee to extend funding for Lebanon that will be adequate to enable these organizations to continue effectively their important work beyond the current fiscal year.

Aid to Morocco

The ties between the United States and the Arab world are exemplified by our ties with Morocco. This year the United States will celebrate the 200th anniversary of its treaty with Morocco--the longest treaty with the United States in existence.

NAAA supports the Administration's fiscal year 1988 request of $133 million for Morocco. We note, however, that the request represents a slightly lower figure than the levels requested by the President in fiscal year 1987. We also support the $20 million fiscal year 1987 supplemental budget request.

The Moroccan economy has suffered under severe strains in recent years. It has an external debt burden which now exceeds its annual gross domestic product, and it has had to struggle with the problems of severe and prolonged drought and low demand for its principal export, phosphates. With a population of almost 24 million, a population growth rate of 2.7 percent and a per capita GNP of only $670, Morocco can effectively utilize the $35 million in ESF and Developmental Assistance and $44.6 million in P.L. 480 assistance that the Reagan Administration has proposed. At the same time, it has shown itself able to to implement a program of fiscal austerity and economic adjustment under the guidance of the World Bank and the International Monetary Fund.

Despite Morocco's pressing economic problems, more than $12 million out of the $20 million in ESF assistance requested by the Reagan Administration is to be given in the form of loans, rather than grants. We urge that all ESF for Morocco be given as grants.

Located on both the Atlantic Ocean and the southern half of the strategic Strait of Gibralter, Morocco has been an important friend to the United States for many years. It has agreed to allow US forces access and transit rights to its military bases in certain cases and provides training areas for US forces stationed in Europe. It also provides much-needed facilities for the Voice of America.

Aid to Tunisia

The Administration's FY 1988 request of $68 million for Tunisia is considerably lower than last year's request. We believe that the $25 million in ESF and PL 480 aid included in the Administration's request is inadequate to meet Tunisia's very pressing economic needs. Nevertheless, mindful of the constraints of Gramm-Rudman-Hollings, we recommend approval of the entire request.

Tunisia has been a friend of the United States since it gained independence in 1956, often using its influence in international bodies to moderate the views of others. During the hostage crisis in Iran, for example, Tunisia cast the deciding vote in the U.N. Security Council for sanctions against Iran. In the Arab League, Tunisia has been a consistent force of moderation. On military matters, Tunisia has been receptive to US initiatives. The Sixth Fleet enjoys regular access to Tunisian ports. The United States and Tunisia have established a joint military commission, and Tunisian officials have shown a desire for heightened military cooperation.

Tunisia's economy has been hurt by a severe drought, and by the fact that it has become a net importer of oil. The expulsion of more than 20,000 Tunisian workers and their families from Libya in 1985, which was due in part to the fall of Libyan oil revenues, put severe strains on the Tunisian economy and made it more difficult for the government to deal with trade and budget deficits and a growing foreign external debt and debt service ratio. In light of these conditions, it is clear that Tunisia requires increased economic aid levels.

Aid to Sudan

We support the Administration's request for over $89.7 million in economic and military aid to Sudan. Geographically the largest state on the African continent, Sudan is of great importance to the United States. It lies on the Red Sea opposite Saudi Arabia and borders on Egypt, Libya, Chad, and Ethiopia, among other states. Sudan's foreign policy in the past decade has been generally sympathetic to U.S. goals. It has lent support for US peace initiatives in the

Middle East and for efforts to expand American military access and capabilities in the region.

With a per capita GNP of only $360 and an average life expectancy of just 51 years, Sudan is one of the least developed countries in the Arab world. Even though it has experienced severe drought in recent years, which has cost it much-needed export earnings, Sudan has taken in more than 1.5 million refugees fleeing drought, famine, and war in neighboring countries. Added to its economic troubles has been continuing unrest in the south of the country.

We support the Administration's request for $36 million in ESF and Developmental Assistance aid for Sudan, although we note with sadness that this figure is considerably less than half the request of the previous year. The funds will provide some help to the Sudanese government to recommence work on important agricultural and oil exploration projects and help Sudan cope with the refugees it is hosting.

Aid to Oman

NAAA supports the Administration's request for $20 million in ESF aid, $5.1 million in FMS financing, and $150,000 in IMET aid for Oman, although we note with some concern that this much of this request is in the form of loans. We also support the $5 million fiscal year 1987 supplemental budget request.

Oman's strategic location and its willingness to cooperate with the United States make it a vital friend that is deserving of our assistance. Gulf oil that is exported by sea through the Strait of Hormuz goes through shipping channels that are inside Omani territorial waters. Oman is modernizing its military to defend against possible threats from Iran and to contribute to regional defense as a member of the Gulf Cooperation Council. It has also granted the United States limited peacetime and extensive emergency access to its military facilities, enabling the US to meet threats to its vital interests and those of its Arab friends in the Gulf region.

Aid to Israel

We believe that the $3 billion in economic and military assistance proposed for Israel -- more than $726 for each of its 4.1 million people--is unjustifiably high. While we realize that enormous aid levels for Israel have become the norm in recent years, allocating such amounts to a country whose per capita GNP is $5,060 and whose people live quite affluently by world standards, is not in the best interests of the United States. The contrast between our generosity for Israel and our treatment of its Arab neighbors is particularly apparent in the meager sums of US aid requested for the Israeli occupied West Bank and Gaza -- which need aid desperately.

The aid request for Israel, which is at the same level as the request for fiscal year 1987, comes at a time when Americans continue to suffer through budget cutting under the Gramm-Rudman-Hollings deficit reduction act. Many Americans are resentful of the fact that we are being asked to make sacrifices at home while the U.S. Government is not insisting that Israel should make equal sacrifices.

We would like to register our opposition in particular to continued funding for Israel's Lavi fighter aircraft, an aircraft which will compete for sales worldwide with American-built aircraft, such as the F-20. So far, U.S. aid has financed over 90 percent, or $1.3 billion, of the Lavi program -- in fiscal year 1984, Congress specifically earmarked FMS funds for the controversial plane. We believe that the American taxpayer should not be required to pay for a weapon that will ultimately compete with American aircraft.

We consider the aid allocations for Israel to be too high on their own merits. It is worth noting also, however, that certain Israeli actions in the course of the last year call into question the wisdom of bestowing such generous amounts of aid on Israel. First, Israeli efforts to obtain sensitive classified information and sophisticated technology from the United States through illegal means, including espionage, would seem to call for severe reductions in aid, not the continuation of the levels it is already getting. The Pollard espionage case, we feel, is only the tip of the iceberg.

Second, Israel's role in the so-called "Iran-contra arms affair" has severely hurt U.S. policy and interests in the Middle East. While investigations into Israel's role are still ongoing, we believe that the information already made public indicates that Israel bears a great deal of responsibility for the initiation of the arms sales and the prolongation of the policy long after it had proven unworkable.

Third, Israeli policies in the West Bank and Gaza have also not been helpful to the chances for peace. Indeed, the political situation on the West Bank has deteriorated to an alarming extent in the past year. Long-simmering frustrations at the open-ended Israeli occupation erupted into demonstrations at the end of 1986, and those demonstrations have been brutally suppressed by the Israeli authorities, leaving a number of Palestinian Arabs, mostly children and youths, dead. Israeli authorities, ignoring the causes of the unrest in the West Bank and Gaza, have closed all Palestinian universities.

Finally, Israel continues to maintain a military presence--after almost five years--in Lebanon. It continues to arm and maintain a surrogate militia force, the "South Lebanon Army," in a so-called "security zone" on Lebanese soil and has on several occasions in the past gone beyond that "security zone" to illegally harrass and detain Lebanese who continue to militarily oppose an Israeli presence in Lebanon.

For all of these reasons, we urge that the aid levels to Israel be reduced. But even if this subcommittee does not see fit to reduce these levels, we urge that it ensure that Israel, like all other countries, bear its fair share of foreign aid cuts required under Gramm-Rudman-Hollings.

PREPARED STATEMENT OF DEAN C. LOMIS

Mr. Chairman and Members of the Committee:

I appreciate the opportunity to appear before you today on behalf of the American Hellenic Institute Public Affairs Committee, Inc. (AHIPAC), to present our views on the foreign aid authorization legislation for fiscal year 1988 affecting Greece, Turkey, and Cyprus, and S.J. Res. 43, National Day of Rememberance for the Victims of the Armenian Genocide of 1915-1923.

The Administration proposes $913 million in military and economic aid for Turkey ($785 million in military; $125 million in economic; and $3.5 million in IMET), $436.25 million in military aid for Greece ($435 million in FMS and $1.25 million in IMET), and $10 million in economic aid for Cyprus.

We oppose these proposed levels as being contrary to the best interests of the United States.

We recommend, in the interests of U.S. foreign policy, including national security interests, and in support of the rule of law and human rights in international affairs:

I. that conditions be placed on all military and economic aid to Turkey;

II. that the ratio of aid to Greece and Turkey be 1 to 1, including military as well as economic aid in the ratio;

III. the continuation of $15 million in humanitarian aid for Cyprus, at least as long as the Turkish occupation presence remains;

IV. a critical review and reassessment of the United States-Turkey bilateral relationship.

V. passage of S.J. Res. 43, the National Day of Remembrance for the Victims of the Armenian Genocide of 1915-1923.

I. CONDITIONS ON ALL MILITARY AND ECONOMIC AID TO TURKEY

Because of the continuing illegal occupation of nearly 40% of Cyprus by at least 35,000 Turkish troops equipped with American weaponry, the escalation of Turkish threats against Greece in the Aegean, the continuing violations of international law and Turkey's recent military modernization and build-up on Cyprus conducted by illegally transferring upgraded American weapons to Cyprus, AHIPAC recommends the imposition of the following full and binding conditions precedent on all military and economic aid to Turkey:

1) the withdrawal of all Turkish occupation forces and colonists from Cyprus;

2) the immediate return of all occupied areas to the Republic of Cyprus under UN auspices for the immediate resettlement of the 200,000 refugees;

3) agreement by Turkey and the Turkish Cypriots to constitutional arrangements based on the universally accepted democratic principle of majority rule with full minority rights guaranteed, as well as freedom of movement, settlement, and ownership anywhere in Cyprus;

4) agreement by Turkey to full cooperation with the International Red Cross regarding investigation of the five missing Americans and the 1,614 missing Greek Cypriots;

5) renunciation by Turkey of its illegal claims in the Aegean and submission to the Court of International Justice at the Hague of any alleged claims;

6) agreement by Turkey to disband its "Army of the Aegean" organized in 1975 and aimed at Greece's Aegean islands.

As the President set forth in his January 23, 1983, State of the Union address, "responsible members of the world community do not threaten or invade their neighbors, and they restrain their allies."

II. RATIO OF AID TO GREECE AND TURKEY SHOULD BE 1 TO 1

We urge the Committee to consider 1 to 1 as the aid ratio between Greece and Turkey in order to further deter potential aggression by Turkey against Greece's Aegean islands and potential further aggression by Turkey in Cyprus.

According to an Administration estimate, Turkey has increased the number of occupation troops on Cyprus to a record 35,000 and has recently transferred modern U.S. tank equipment from Turkey to its occupation forces in Cyprus. Such action is contrary to the U.S. Foreign Assistance Act, the U.S. Foreign Military Sales Act, bilateral agreements under those Acts and in violation of Public Law 94-104 sec. 2a(1) of October 6, 1975.

Turkey has continued to date its threats against Greek islands in the Aegean and provocations into Greek airspace in the Aegean.

III. $15 MILLION IN HUMANITARIAN AID TO CYPRUS

We recommend the continuation of $15 million in humanitarian aid to Cyprus at least as long as the Turkish occupation forces remain in Cyprus.

A further reason for the continuation of aid at this level is that Cyprus has been of substantial assistance to the United States in connection with matters regarding the Middle East.

IV. A CRITICAL REVIEW AND REASSESSMENT OF THE U.S.-TURKEY BILATERAL RELATIONSHIP

Turkey's actions, which have been harmful to the U.S. and the Western Alliance, call for a critical review and reassessment of the United States-Turkey bilateral relationship and Turkey's role in NATO to determine the actual contribution by Turkey, if any, to the deterrent capabilities of the Western Alliance and to determine the degree of damage that Turkey inflicts on the Western Alliance by its continued aggression on Cyprus and illegal demands in the Aegean. The review should consider the value, if any, of U.S. installations in Turkey and the need, if any, of U.S. armed forces in Turkey and the question of Turkey's reliability as an ally.

Turkey is an unreliable ally. Turkey's well-documented track record of abominable practices and unfaithfulness is contrary to the image she seeks. Turkey's unreliability to the United States and our allies, its inhumane practices against minorities, and its aggressive actions against its neighbors are indeed indisputable historical facts.

A detailed list of Turkey's violations of treaties, laws, and other actions demonstrating its unreliability as an ally, and its military and economic cooperation with the Soviet Union is set forth below:

A. Turkey and the U.S.S.R.

-- During the Middle East War of 1973, predating the Turkish invasion of Cyprus by one year, Turkey allowed the Soviet Union specific overflight rights and overland convoy rights using the primary public road system to resupply Syria and her allies who were engaged in war against Israel, while denying U.S. overflight rights to resupply Israel.

-- In a similar manner, Turkey permitted Moscow direct overflight rights to support the Ethiopian communists who eventually prevailed and established a Marxist-Leninist regime based on direct Soviet support. Furthermore, during the peak months of the conflict (December 1977-January 1978), the Soviet Union greatly increased the number of flights over Turkish airspace with the direct acquiescence of the Turkish government. Specifically, during the last week of November 1977, Moscow secretly flew a thousand-man Cuban expeditionary force from Havana to the Soviet Union, then directly over Turkey and into Ethiopia. The size, scope, importance and timing of the massive Soviet airlift of troops (Soviet, East Bloc, Cuban), weapons and supplies (also Soviet) is indicated by the fact that during the first week of December 1977, eighteen huge Soviet AN-22 transport aircraft landed in Addis Abbaba, whose cargoes and advisors were transported to the Ogaden desert fighting front and were instrumental in achieving victory from certain defeat. The time saved by passing through Turkish airspace was crucial to the Soviet victory.

-- On June 23, 1983, Turkey signed pacts of "non-aggression and expanded trade" with the Soviet Union in exchange for $1.6 billion for the following year. What is important to note here, however, is the fact that Turkey not only trades with Soviet Union, but has become overly dependent on Moscow for its energy needs. The April 12-24, 1984, issue of *The Middle East Times* of London documents this development clearly and concisely: "Although a member of NATO, Turkey depends heavily on the Soviet Union for...its energy needs...The Soviet Union, because of its proximity, is providing 1.7 billion kilowatt hours this year and, more importantly, the Soviets have also agreed to send natural gas through a new pipeline to be constructed through Bulgaria and Romania (Soviet satellite countries) to the industrial areas of Istanbul and Turkish Thrace...a separate pipeline...not linked to the Trans-Siberian pipeline to Western Europe." Due to the nature of the Turkey-USSR bilateral relationship, the influence of the Soviet Union upon Turkey and its implications for the Western Alliance during conflict and crisis are obvious.

-- Turkey is the largest recipient of Soviet aid outside the Soviet bloc, and is the only NATO member to receive aid from the Soviet Union. Incredibly, during the previous twenty years, Turkey has accepted from the Soviets a sum larger than Soviet aid to Egypt, India, Iraq and Syria, repsectively, during the same period.

B. Turkey and the United States

-- On August 15, 1986, Turkish Premier Turgut Ozal declared in a statement to the Turkish press: "Turkey should not jump on the bandwagon of American policy because that would have a negative impact on relations between the Soviet Union and Turkey".

-- Ali Karaosmanoglu of the Turkish Foreign Policy Institute in Ankara stated in his article, "Turkey's Security in the Middle East", published in the Fall, 1983, issue of *Foreign Affairs* magazine: "...on several occasions Turkish officials have declared that Turkey has no intention of taking part in the RDF (Rapid Deployment Force)...Turkey will make no formal strategic commitments outside the NATO framework".

-- During the early days of the Carter Administration, when a SALT II treaty was considered within reach of ratification by the U.S. Senate, Turkey refused to permit American use of its territory for verification of Soviet conduct regarding missile tests, monitoring telemetry from the missile tests, monitoring Soviet troop movement, etc., unless "the Soviets did not object." Needless to say, the Soviets rejected the request.

-- With regard to the perceived importance of listening posts in Turkey and how they effect verification of arms control treaties, former Secretary of Defense Melvin Laird commented:

> "We don't need Turkey to verify a SALT agreement. U.S. interests are not protected if we have to depend on a third country. We have adequate means of verification on Soviet missiles without Turkey." (Christian Science Monitor and the Baltimore Sun, August 20, 1975)

-- Dr. Herbert P. Scoville, former Director of Research for the CIA, stated in a letter (July 20, 1975) to Congressman John F. Seiberling that:

> "In sum, the Turkish bases have only marginal utility in verifying past or possible future SALT agreements. Other observation sites and satellites would appear much more useful. SALT cannot be reasonably used as a justification for making a decision on our Turkish aid program."

Dr. Scoville also stated that:

> "...to say that they (Turkish bases) are essential for verifying past or future SALT agreements would appear to be such an exaggeration as to raise questions as to the sincerity of those making the statements."

He also pointed out that the intelligence that could be gathered from these listening posts was available from other listening posts.

-- During the captivity of the American hostages in Iran, and while the global community was condemning the Iranians for their illegal action, Turkey not only refused to condemn Iran but, as The Washington Post reported, Turkey was "attempting to maintain rapport with America's most bitter enemy, the revolutionary theocracy of Ayatolla Rudollah Khomeni."

-- Following the shooting of a British policewoman from the Libyan Embassy in London in April of 1984, "Washington issued an appeal to all NATO countries to freeze contacts with the Libyans...in an effort to isolate Libya's leader Col. Muammar Qaddafi." As the May 24, 1984, issue of The Christian Science Monitor reported "...citing 'national interests'" Turkish Prime Minister Turgut Ozal visited Libya "over the objections of the United States and Britain". It is important to note that Mr. Ozal had just concluded a visit to Iran, thus moving a Western analyst to note regarding Iran and Libya: "These are the two countries which the West wants to isolate, and both now enjoy the support of Turkey".

-- In January of 1981, President Carter tried to obtain a commitment from Turkey for the use of Turkish territory for operations in cases of conflict in the Middle East. The January 20, 1981, New York Times reported that Turkey was not in favor of "the United States using Turkish bases for conflicts not affecting Turkey." In the Spring, 1983, issue of Foreign Policy magazine, Harry Shaw pointed out that Turkey is unlikely to become involved in, or allow U.S. forces to use Turkish territory in a Middle East war that does not threaten her territory directly.

-- In 1980, Turkey refused to permit the U.S. to use the NATO base at Diyarbakir in eastern Turkey as a transit point for the purpose of conducting a rescue mission into Tehran, Iran, to free the American hostages held in the city. The distance from Tehran to Diyarbakir is only 450 miles as opposed to the actual route taken which was over 900 miles. We now know that the resulting disaster ensuing from the rescue attempt was a direct consequence of the distance involved.

-- The Turkish government has refused repeated American requests for the installation of antennas in Turkey concerning eleven transmitters whose broadcasts would have been directed primarily against the Soviet Union and its eastern European satellites. As reported in the July 22, 1983, issue of Newsweek, the initiative by the U.S. Department of State sought to improve reception of programs broadcast by Radio Free Europe, Radio Liberty, and the Voice of America, now constantly jammed by Moscow.

C. Turkey's Violation of International Treaties and Laws

- In July and August of 1974, against the U.S.-Turkish bilateral agreement of July 1, 1947, the London-Zurich Treaty of 1959, the Treaty of Guarantee of 1960, the U.S. Foreign Military Assistance Act of 1961, the Foreign Military Sales Act of 1963, the United Nations Charter, international laws and treaties, Turkey illegally used American-supplied arms and equipment to invade and conquer nearly 40% of the independent island-nation of Cyprus.

- Turkey has disregarded the rule of law by refusing to adhere to the above stated treaties and to the many subsequent United Nations resolutions repeatedly calling for the withdrawal of Turkish troops from the island in respect for Cypriot independence, sovereignty and territorial integrity.

- Against international law, Turkey has conducted a systematic illegal effort to colonize northern Cyprus by infiltrating over 60,000 colonists from the Turkish mainland since 1974 in a deliberate attempt to alter the demographic make-up of northern-occupied Cyprus.

- Turkey immediately abrogated its alliance treaty with France after France was invaded by Germany during World War II.

- Turkey abrogated its alliance treaty with Greece only hours before Greece was invaded by Germany in World War II.

- During World War II, Turkey remained a pro-Nazi neutral, by trading heavily with the Germans, providing them with critical war materials, including chromium, the all-important alloy needed in steel to produce bombs. Albert Speer, Hitler's economic czar, in his book Inside the Third Reich, said the war supplies from Turkey prolonged the war by eleven months.

- The United States provided Turkey with $27 million in "lend-lease" aid to join the Allies in World War II to no avail.

- Turkey fought with the Central Powers and against the United States and the Allies in World War I.

D. Turkey's Aggression against and Occupation of nearly 40% of Cyprus

- In July and August of 1974, Turkey launched twin invasions of the Republic of Cyprus, proceeding to occupy 37% of the country in violation of several laws and arguments as detailed above.

- Turkey refuses to agree to the immediate return of all occupied areas to the Republic of Cyprus under UN auspices for the immediate resettlement of the 200,000 refugees.

- Turkey and the Turkish Cypriots refuse to agree to constitutional arrangements based on the universally accepted democratic principle of majority rule with full minority rights guaranteed, as well as freedom of movement, settlement, and ownership anywhere in Cyprus.

- Turkey refuses to provide information on the status of five American citizens who have been missing since the illegal invasion of Cyprus in 1974.

- Turkey refuses to cooperate with the International Red Cross in providing information on the 1,614 Greek Cypriots missing since the invasion of Cyprus.

- On July 17, 1986, the Economist magazine reported that Turkey had increased its occupation forces by over 25% during the year with qualitative and quantitative increases in military capabilities as well. Specifically, Turkey has completed Lefkoniko Airport with modern runways exceeding 10,000 feet in length; modernized its fleet of attack helicopters; deployed over 2,700 offensive air-to-surface rockets; increased the number of anti-tank weapons and transport trucks and deployed modern 81MM and 106MM mortars. The U.N. peace-keeping force on Cyprus (UNFICYP) has confirmed both the quantitative and qualitative increases of the occupation forces.

- In January 1987, U.N. Secretary-General Javier Perez de Quellar requested that Turkish settlers leave two Greek Cypriot-owned hotels in the occupied coastal town of Varosha (Famagusta), once a flourishing tourist resort before the Turkish invasion of Cyprus in 1974. U.N. Security Council Resolution 550, adopted in 1984, considers attempts to settle any portion of Varosha by people other than its original inhabitants as inadmissible and calls for the transfer of this area to the administration of the United Nations.

E. Turkey and the Aegean

-- Turkey receives American foreign aid as a NATO member for the express purpose of guarding its common border with the Soviet Union. However, in 1975, Turkey created the "Army of the Aegean" which lies outside the NATO framework and is deployed along Turkey's western coast directly opposite the Greek Aegean islands. Composed of 140,000 Turkish soldiers, a division of marines, a brigade of armor, and airborne division with helicopters and other selected units as well as Turkey's entire parachute contingent, this offensive force is supported by 127 naval beach assault landing craft. By definition, the stated purpose of the "Army of the Aegean" is to "liberate" the territories once occupied by the Ottoman Empire.

This situation has forced the Greeks to place a substantial number of their forces directly on their islands in the Aegean for defensive purposes. In addition, Turkey continues to maintain 35,000 troops in occupied northern Cyprus. An obvious question for the role of American foreign policy in the region is: Why should the United States spend over $1 billion per year for Greece and Turkey when both countries now have nearly 200,000 troops facing each other and Turkey is occupying part of another country (Cyprus). The troops of both Greece and Turkey are intended to be used (in the NATO framework) against the Soviet Union.

-- Turkey, during its invasion of Cyprus in 1974, issued a notice--NOTAM 714--in direct violation of the International Civil Aviation Organization's (ICAO) rules regarding the legal boundaries of the Athens Flight Information Region (FIR). This NOTAM was an illegal and blatant attempt by Turkey to expand its jurisdiction westward to the middle of the Aegean and well within the Athens FIR, which legally extends to the eastern Aegean and the Greek-Turkish border. Pilots, while reporting to FIR Athens under international law, could not ignore the Turkish NOTAM, thus leading to confusion and dangerous conditions. Greece issued its own notice and declared the Aegean a danger area on August 14, 1974, stating it could no longer guarantee flight safety because of Turkey's deliberate interference. Commercial airlines stopped using the Aegean and diverted aircraft to and from Turkey by using a temporary detour over Bulgaria. Turkey withdrew its NOTAM 714 notice on February 22, 1980, nearly six years after it was issued. NOTAM 714 proved to be damaging to Turkish tourism, business, and air communications.

-- Turkey continues its airspace provocations against Greece as Turkish military aircraft periodically violate Greek airspace, requiring Greek fighter aircraft to rise and intercept the Turkish jets.

-- Turkish naval vessels continue to intimidate, on a consistent basis, Greek commercial and passenger ships proceeding in and through the Aegean.

-- Turkish Prime Minister, Turgut Ozal, has stated: "Turkey is a country of 52 million people, growing every day; Greece is a country of 8.9 million people. Moreover, these islands are widely scattered. We do not believe in war between us. But if it happens, Greece will be at a disadvantage." Former Turkish Prime Minister Ulusu has stated: "Sooner or later, we shall be obliged to break out of the noose formed by the (Greek) islands which suffocatingly surround Turkey. The Aegean Sea is Turkey's lung. Just as a man cannot live without breathing air, so Turkey cannot live without the Aegean."

F. Turkey's Violation of Human Rights*

-- Turkey's atrocious record regarding human rights against her own minorities of Armenians, Greeks, Jews, Kurds, and Syrians, as well as against political adversaries and dissidents, is well documented and condemned in the most recent Amnesty International reports, and is equally well documented with specific calls of concern in the annual United States Staff Report on the Human Rights Situation in Turkey.

-- The U.S. Congress is currently considering a joint resolution concerning the Armenian Genocide whereby one and one-half million people were exterminated because they were part of the Armenian minority.

* See exhibit 1 (Chicago Tribune; February 26, 1987)

-- It is ironic that Turkey has cried out to the world community regarding the Turkish minority in Bulgaria who are harassed, forbidden to speak Turkish, and forced to change their names to those of Slavic origin. This is identical to the treatment the Turkish government has used against the Kurdish minority in eastern Turkey--harassment, banning of the Kurdish language, and coercement to change their names to those of Turkish origin. Turkey's treatment of its Kurdish minority should be contrasted with its positions vis-a-vis the Turkish Cypriot minority in Cyprus.

-- Turkey has violated basic human rights by its aggression in Cyprus. In its report, the European Commission of Human Rights of the Council of Europe has found Turkey guilty of such violations as civilian murders, looting, rape, destruction, expulsion, and brutal behavior of Turkish military personnel. The London Sunday Times of January 23, 1977, published excerpts of the damaging report and stated, "It is a horrendous indictment against Turkey and its soldiers and civilians sent from the mainland" to Cyprus.

The London Sunday Times (January 23, 1977) and the Manchester Guardian (January 18, 1977) reported the Commission's verdicts that Turkey had violated six articles of the European Convention on Human Rights by its:

(1) Systematic killings of innocent civilians committed on a substantial scale;

(2) Rapes of women of all ages from 12 to 71;

(3) Torture of prisoners and persons detained;

(4) Looting and robbing on an extensive scale;

(5) Continuing violation of human rights by refusing to allow the return of refugees to their homes;

(6) Enforced expulsions.

-- Other neutral groups, such as Amnesty International and Asme Humanitas of West Germany, have documented other violations, such as the torture of Greek Cypriot prisoners of war. Meanwhile, the illegal conduct of Turkey continues with the forceable expulsion of Greek Cypriots from the Turkish-occupied sector, Turkey's refusal to provide information on missing person (although it is suspected most of them have been murdered by Turkish forces), and by Turkey's refusal to cooperate with the U.N. peacekeeping force and the International Red Cross, only add support to the reports of Turkey's violation of human rights.

G. Turkey and NATO

-- Turkey, in 1986 and before, has refused to abide by the Montreux Convention of 1936, giving Greece the right to militarize the island of Limnos. Strategically located, Limnos serves as a natural barrier to Soviet encroachment in the Aegean and Mediterranean Seas. NATO has attempted to include Limnos in its strategic war-planning but Turkey consistently refused to allow any NATO overtures regarding Limnos to take place.

-- In 1978, contrary to the wishes of Turkey's NATO partners, and to the spirit of the Montreux Convention, Ankara permitted the Soviet aircraft carrier KIEV passage rights through the strategic Dardenelles and into the Mediterranean Sea.

-- On May 16, 1983, Turkey permitted the Soviet aircraft carrier NOVOROSIISK to sail through the Dardanelles and into the Mediterranean Sea, which was the second time in five years that Turkey allowed a Soviet aircraft carrier to penetrate the Straits. In 1984, Ankara permitted the third Soviet aircraft carrier, the MOSKVA, through the Straits. The presence of the three carriers in the Mediterranean - which was seriously protested by Turkey's NATO partners - possessing modern advanced fighter-bomber aircraft and attack helicopters as well as the ability to maintain surface speeds of 30 knots, pose a formidable threat to the U.S. Mediterranean Fleet.

-- Additionally, the authoritative Jane's Defense Weekly of August 7, 1984 stated that the Soviets are building in one of their Black Sea shipyards one of eight nuclear-powered 75,000-ton aircraft carriers, the KREMLIN, which will be a "formidable adversary for the U.S. Navy's carrier battle groups." Following a protest from the U.S., Turkey replied on March 24, 1986 that the issue is not the business of the United States and that the U.S. should not to attempt to alter the Montreux Convention because it "will have no luck."

-- Turkey also maintains the "Army of Thrace" in northwestern Turkey along the Greek border. The Army's "degree of readiness of 80-100 percent, is much higher than that of the units deployed along the Soviet borders". Like the "Army of the Aegean", the "Army of Thrace" will move to "liberate" Western Thrace (northern Greece) when the appropriate time presents itself.

-- Turkey continues to prevent the completion of two Greek NATO projects on the Greek island of Skyros concerning the establishment of a Fast Patrol Boat Advanced Base and the construction of a Semi-Buried Mine Depot. Turkey put forward the premise that these projects have not even been programmed despite joint efforts by American and British delegations as well as the President of NATO's Infrastructure Committee stating otherwise.

V. PASSAGE OF S.J. RES. 43, THE NATIONAL DAY OF REMEMBRANCE FOR THE VICTIMS OF THE ARMENIAN GENOCIDE OF 1915-1923.

We urge the Committee to vote for the passage of S.J. Res. 43, National Day of Remembrance for the Victims of the Armenian Genocide of 1915-1923, which calls "upon the people of the United States to observe (April 24, 1987) as a day of remembrance for the one-and-one-half million people of Armenian ancestry who were victims of the genocide perpetrated by the governments of the Ottoman Empire."

It is important that the United States be in the forefront in condemning genocide. Passage of S.J. Res. 43 is particularly important since the Armenian genocide by Turkey, the first holocaust of the 20th century, was the precedent for subsequent exterminations of more Armenians and Greeks in Smyrna and Constantinople by Turkey and was the precedent for Hitler's Nazi Germany in the extermination of Jews, Greeks, Poles and other peoples.

Mr. Chairman, not only does the U.S., as a "responsible member of the world community", have every obligation to restrain its ally Turkey, but "U.S. law stipulates that American military assistance to Turkey must be used only in conjunction with Turkey's responsibilities as a member of the NATO alliance" (as stated by eight members of Congress in their December 24, 1986 letter to Secretary of State George Shultz).

The U.S. has made no major effort to restrain the actions of Turkey on Cyprus or in the Aegean and has failed to take the initiative to achieve a just and lasting settlement of the Cyprus problem, something the United States is in a unique position to do.

Thank you Mr. Chairman and Members of the Committee.

Exhibit 1

[Chicago Tribune, Thursday, Feb. 26, 1987]

CRITICS HIT TURKEY ON RIGHTS, TORTURE

ANKARA, Turkey—One night last month Yilmaz Onay was hauled from his home here, blindfolded and driven off in the dark to be brutally tortured.

That night the 50-year-old playwright and theater director said he discovered that despite three years of elected parliamentary government which replaced martial law, civil rights violations and torture remain routine in Turkey.

Last week, two international trade union movements charged that Turkey continues to violate human rights—a stinging rebuke to Prime Minister Turgut Ozal's efforts to promote a more democratic image abroad.

Turkey's Human Rights Association has charged that some 97 people have died from torture in jail since 1980 and despite the end of military rule, the practice is still widespread. "It looks as if there has been no change in the methods," the group's chairman, Nevzat Helvaci, said after announcing the results of a seven-month probe. The asssociation demanded a full inquiry.

"The Ozal government is more interested in its image abroad than in civil rights at home," said a leading publisher here. "One cannot avoid the suspicion that Turkey's NATO partners are mainly interested in a strong, stable Turkey to act as a bastion against the expansion of Islamic fundamentalism and Soviet communism. If this can only be achieved at the expense of human rights, well, too bad."

Ozal wants to bring Turkey into the European Economic Community but the Europeans first demand more democracy in Turkey.

Meanwhile, despite three years of limited democracy, many political parties in Turkey remain outlawed; others are subject to official approval. The military still has significant influence.

The main trade union movement is also outlawed while an officially recognized union uses its bargaining power sparingly.

Newspapers still receive orders from the censor, though far less frequently than in the past.

Five of the country's 67 provinces remain under martial law in the Southeast, where Kurds fight a guerrilla war for autonomy.

International human rights organizations estimate that the number of political prisoners in Turkish jails has dropped by half during the last two years, to an estimated 6,000 to 8,000 people.

But most of those freed face retrials on charges for which they have already been acquitted.

After his arrest, Onay said he was pushed into a room and told to "start confessing" because his captors "knew everything."

"I said I could not think of any crime I may have committed," Onay said. "Then they just beat me up. They punched and slapped my face then told me to talk before things got worse. But I had nothing to tell them."

Onay, who remained blindfolded throughout his ordeal, said he could hear other prisoners screaming in pain.

"They ordered me to strip naked. Suddenly a jet of cold water hit me from behind. . . . When I could no longer scream the jet was turned off. I was ordered to 'jump up and down.' I guess it was to stimulate my circulation. Then the jet came on again, this time from the front."

He said he has no idea how long the water torture lasted. When it ended, he was questioned again. "I realized they had nothing on me but they wanted me to confess something. I could not.

"Then they hung me on a rack by my wrists, still naked and with my feet dangling."

When he still refused to confess, Onay said, "they put an electric wire on my feet, then my knees, then my thighs and finally on my genitals. I guess I was screaming like hell."

Ultimately, Onay was put in a solitary cell and permitted to remove his blindfold. Three days after his arrest, he was taken to court and released.

He has never been told why he was arrested but suspects it was because police found his name and address in a notebook confiscated from a friend of his son who had attended a meeting to discuss forming a socialist party.

Despite stories like this one, Western diplomats and human rights activists say the country's limited democracy, safeguarded by the armed forces, has managed to forestall some civil rights abuses.

Yet when the government recently allowed Turks to appeal to the human rights court in The Hague, all citizens living outside Turkey or in the provinces where rebels are fighting the army were excluded from making complaints. Government employees, soldiers and police also were excluded.

When martial law ended, new legislation gave police virtually the same powers the military had enjoyed—to wiretap telephones, search without warrants, arrest on suspicion, censor information and use guns.

In 1982, though 92 percent of the Turkish electorate approved a new constitution, they also voted to maintain a 63-year-old law prohibiting communist ideology and permitting political dissidents to be charged as communists—in effect, as an enemy of the state.

RESPONSES OF SECRETARY SHULTZ TO QUESTIONS ASKED BY SENATOR PELL

Q. I notice we have $50,000 in there for training for the military in the Pinochet Government in Chile.

A. Under current legislation the provision of IMET training to Chile is dependent upon Presidential certification under Section 726 of the International Security and Development Cooperation Act of 1981. We do not believe conditions warrant certification at this time. For FY 1988, however, we do not want to rule out the possibility that conditions in Chile may change so that certification under Section 726 could be considered -- in close consultation with Congress.

If implemented, an IMET program would be consistent with our policy of encouraging a dialogue within Chile on the transition to democracy and improved human rights practices. Continuing to deny military training to the Chilean armed forces will not, if nearly a decade of experience is any guide, influence the human rights practices of the Chilean government. Resuming limited military training would enable us to expand our contacts with the Chilean military, which would over time not only serve our security objectives, but also our interests in democracy and human rights.

What has been the effect of the change in the dollar value vis-a-vis foreign currencies; and any estimate of the total dollar impact that this has had, on a year to year basis over the last several years, on State Operations? Secondly, what has been the effect of overseas inflation on State Operations?.

The impact of dollar fluctuations on State operations can best be understood by reviewing the history of the Buying Power Maintenance Account (BPMA). The BPMA established in 1982, provides budget authority to offset net losses in other appropriations due to adverse fluctuations in foreign currency exchange rates and/or to overseas wage and price increases unanticipated in the budget for Department operations in 16 OECD countries. Unanticipated net gains due to favorable exchange rate movements and lower than expected overseas wage and price fluctuations in the concerned countries are transferred to this appropriation to meet future needs.

Until FY 1986, it has been our experience that Department is most affected by exchange rate fluctuations in these major OECD countries. Fluctuations with currencies of other countries tend to be offsetting. The following table summarizes the history of the BPMA:

BUYING POWER MAINTENANCE
SUMMARY OF ACCOUNT

Year	Approp	Transfers	Account Balance
1982	$1,500	$200	$ 1,700
1983	4,500	10,994	15,494
1984	--	5,901	4,815
1985	--	-1,759	-673
1986	--	-18,821	-18,821
1987	--	- 2,515	- 2,515
Total	6,000	-7,086	0

Total Appropriations	$ 6,000
Actual Transfer of Gains to BPM	17,095
Transfers from BPM to Bureaus	-23,095
Total Account Balance (Cumulative)	0

As the table indicates, from 1982-84 exchange rate gains were used to build a balance of $22 million. However, the dollar's decline, which began in the Summer of 1985, has totally depleted the BPMA.

During this period of exchange rate losses, we also sustained substantial losses in other parts of the world, not just in the OECD countries. In fact, as our FY 1987 supplemental indicates, we lost a total of $30.7 million to exchange rate fluctuations in 1986 ($19m from OECD, $11.7 m balance). So far in FY 1987, we have lost an additional $12 million in purchasing power due to exchange rate fluctuations.

As the following table indicates, over the past several years unbudgeted inflation has been eroding the base of State Operations:

	1986	1985	1984	1983
Actual Inflation Costs	$52.3m	$52.2m	$47.7m	$81.0m
Funding for Inflation	$36.1m	$39.2m	$36.9m	$59.0m
Unfunded Inflation (Dollars)	$16.2m	$13.0m	$10.8m	$22.0m

The Department is requesting a 1987 supplemental for overseas wage and price increases. Based on a very conservative worldwide inflation assumption of 4% (the Department estimates overseas inflation for its basket of goods and services to be approximately 8%), the Department requires $16.5 million for 1987 overseas wage and price increases (the same amount that was included in the 1987 Presidents budget). The 1987 appropriation reduced our 1987 request to about the 1986 freeze level. Such a level precludes funding overseas mandatory wage and price increases. To date the Department has absorbed $34.0 million in FY 1987 overseas wage and price increases. Therefore, even after the $16.5 million supplemental, the Department will be forced to absorb $17.5 million.

Question:

Are you satisfied with the language capability in the Foreign Service? For example, how many FSO's serving in the Soviet Union are capable of doing business in Russian?

Answer:

Of course I'm not satisfied. I think we have a good capability but there is room for improvement.

In recent years the Department has expanded the number of positions in which a degree of language fluency is required and carefully monitors the assignment process to maximize compliance. Over 70% of these language designated positions are occupied by fully qualified language officers. The compliance in some of the harder languages is substantially higher than average -- Bulgarian, 86%; Russian, 85%; Japanese, 78%. Over 50% of all language designated positions are filled by officers with proficiencies exceeding stipulated requirements.

In the Soviet Union, we currently have 29 FSO's who speak Russian at the S-3/R-3 (general professional proficiency) level or above.

Question:

Does a 3-3 language rating, which suffices to meet Service tenure requirements, allow an FSO to transact normal diplomatic business in a language?

Answer:

An FSO with this rating should have sufficient command of the language to transact normal diplomatic business in it. The S-3 rating signifies that the individual can speak the language with "sufficient structural accuracy and vocabulary to participate effectively in most formal and informal communications on practical, social and professional topics". The R-3 rating signifies that the individual can read "within a normal range of speed and with almost complete comprehension a variety of authentic prose material on unfamiliar subjects."

Immediately after leaving language training with S-3/R-3, however, most officers need some field experience in the country--perhaps a few months--before they are fully comfortable with the naturally occuring range of language use situations. We believe that our increasing emphasis on functional communication skills, as opposed to classroom skills, is already showing some results in narrowing the gap between the end-of-training skills and the attainment of functional proficiency but we accept that there is still room for improvement.

Question:

What should be done to increase the number of FSOs able to transact business in the language of the country to which they are stationed?.

Answer:

Ideally, all USG employee positions at non-English speaking posts would be designated as language-essential at specific levels dictated by the performance requirements of their jobs. Many positions are so designated now. To increase the number of language-capable officers we should increase the number of FSOs to allow time for additional training, and, at the same time, increase funding for this training.

A first step would be approval of the $1.2 million requested in the FY 88 budget to help us enhance our capabilities in important hard languages such as Arabic, Chinese, Japanese, Korean, and Russian. The Stearns Report on our needs in these languages recommended improvements in certain personnel management policies as well as in training. The changes would increase the number of FSOs with S/R-3 level proficiency and enable selected FSOs to be trained to higher levels.

SFRC Questions and Answers

(Q): I wrote asking that you not close any consulates until this Committee has had a chance to consider the issue as part of our consideration of the State Department's authorization request. Will you delay the closings?

(A): The timing of post closures in fiscal year 1987 is a matter of considerable concern. As I mentioned in my letter to you of February 25, 1987, we have no choice but to cut into our base of people and positions in order to achieve economies wherever possible in accordance with our global priorities. It is not possible for the Department to keep within our existing budget or to maintain desired levels of operation in the constrained environment we almost certainly will face in fiscal year 1988. We must continue to achieve economies in our operations, even at the margin.

I do not believe that we can delay taking action on cost-saving measures. Our embassies in Paris and Bonn, for example, have said they they must close Lyon and Dusseldorf respectively on April 1, 1987 because of the need to realize immediate savings in view of the decline in the value of the dollar. So that the Department can realize full savings from post closures, and to avoid incurring greater costs for maintaining them in fiscal year 1988 and beyond, it is necessary to complete the post closures before the end of this fiscal year on September 30, 1987. For this reason, we plan by March 31 to authorize the embassies concerned to initiate final post closure actions and to allow them to determine appropriate closing dates between April 1 and September 30.

(Q): What additional posts are being considered for closing? Could you supply, for the record, the savings to be made for each consulate proposed and considered for closing.

(A): Attached is a table showing the identifiable budgetary savings to be derived from the post closures planned for fiscal year 1987. However, the savings in this fiscal year will not be significant because of one-time closing costs and because the closings will take place throughout the second half of the fiscal year. Beyond these identifiable savings, there is a significant cost-avoidance for out-year personnel and support expenditures. Closing seven consulates this year will save on future expenditures for U.S. and Foreign Service National personnel, communications, rents, security, information systems, equipment, and the like. Thus, the annual savings of approximately $3.1 million would seem to be only a small portion of the Department's overall operating budget, or even of State Department operating costs for the country concerned, but the downstream savings are significant when matched against new and higher priority program requirements, including new post openings.

Beyond the seven consulates to be closed in this fiscal year, we may have to consider closing additional consulates, and perhaps some embassies, in fiscal year 1988. No decisions have yet been made to identify specific posts that might be closed. This will depend on the overall budgetary situation for fiscal year 1988 and on specific economy measures we will need to take to stay within our budgetary ceiling as approved by the Congress.

POST CLOSING DATA
($ in Thousands)

POST	AMERICAN PRESENCE	STATE OPERATING COSTS($)	SECURITY UPGRADE COSTS ($)	POSITION SAVINGS AMERICAN	(STATE) FSN	CONSULAR WORKLOAD (No. of Services)			
						NON-IMMIGRANT VISAS	IMMIGRANT VISAS	SPECIAL CONS SERVICES	PASSPORTS
DUSSELDORF	STATE 1 COMM 1 USIA 1	441	---	1	2	0	0	0	0
GOTEBORG	STATE 1	172	---	1	2	6290	0	645	188
LYON	STATE 2	358	3.90	1	2	26,246	0	1,034	464
MARACAIBO	STATE 3 USIA 1	220	---	1	2	7,656	0	2,311	1,043
SALZBURG	STATE 1	154	---	1	1	0	0	522	619
TANGIER	STATE 3 USIA 5 DOD 2	403	---	3	8	427	14	253	183
TURIN	STATE 1	215	---	1	3	0	0	0	0
SUB-TOTAL:		1,963	3.90	10	21				

SAVINGS
ON AMERICAN S & E + 1,200 (10 POSITIONS + 2 from Genoa)

TOTAL ANNUALIZED SAVINGS $3,163

(Q): Don't you think this gives the perception that the U.S. is withdrawing from its worldwide responsibilities?

(A): Over 70 Foreign Service posts have been closed since the 1940's but, at the same time, many more posts have been opened in response to changing global priorities. While seven small consulates were closed in 1986, and seven more are to be closed this year, the Department has opened three posts in Micronesia to implement U.S. Government responsibilities pursuant to the Compact of Free Association; a small consulate was opened recently in the Solomon Islands to help protect our strategic interests and our fishing fleet in the South Pacific; and our proposed budget for fiscal year 1987 asks for positions and funds to open a small embassy in Western Samoa, also in keeping with our important strategic interests in the Pacific.

The decisions we have taken to close some posts while opening others do not signal a withdrawal of the United States from its worldwide responsibilities, but instead reflect a careful assessment of current global interests and priorities.

Development Aid Vs. ESF

Question: Within ESF the largest single growth component has been cash grant transfers for balance-of-payment support. How do you balance the need for quick-disbursing cash to help an economy, on ~~the~~ one hand, and the need for longer term developmental assistance on the other?

Response: The FY 1988 request reflects a balance within present funding constraints between meeting short-term needs through quick disbursing assistance and longer-range development problems.

Project assistance tackles longer-term developmental problems which require sustained efforts. Effective institution building, technology transfer, and private sector development involve both technical assistance and training which require time. Activities which improve health, reduce population growth rates, and increase literacy, for example, involve social change which of necessity comes gradually.

Quick disbursing forms of assistance, e.g., ESF cash grants in particular, are essential for many countries which are experiencing economic instability, and where U.S. security interests are affected. Many, if not most, aid recipients have debt servicing problems and foreign exchange cash flow problems which require careful management. Cash transfers are the most efficient means of introducing foreign exchange into an economy. They provide for infusion in stages of specified amounts of dollars into these economies, helping to create economic, and thus political, stability by maintaining a controlled and rational flow of foreign exchange throughout the year. The timing of disbursements factors in, among other things, the need for securing/maintaining a realistic exchange rate, the need for the country -- including private sector entities -- to continue to meet foreign debt obligations, and the need to maintain adequate reserve levels. In addition, disbursement of foreign exchange is often used to leverage significant macroeconomic policy reforms and thus make more effective the project assistance we are providing.

Q. What are the prospects that the United States will be expected to provide increased levels of security assistance to "base-rights countries" such as Turkey, Greece, Portugal, Spain and the Philippines in order to maintain U.S. rights to use military facilities there? Please elaborate regarding the prospects in each of these countries.

A. All base rights countries have suffered declines in levels of support provided for FY 1986 and FY 1987, given appropriation shortfalls and GRH-mandated cutbacks. FY 1987 reductions were especially dramatic due to deep appropriation cuts. We are seeking to restore some of these losses in our FY

1987 supplemental and FY 1987 budget requests, in addition to offering more favorable terms of assistance.

Though difficult to assess as yet with any precision, U.S. credibility has clearly been damaged as a result of reduced funding levels in base rights countries. We cannot predict whether the U.S. will be expected to provide increased levels of security assistance to base rights countries but can and do assume that continued difficulties with our credibility will make the process of negotiating to maintain those critical facilities that much more difficult.

As we approach these negotiations, we will make every effort to minimize costs to the U.S. given our severe budget problems. Nevertheless, we cannot lose sight of the fact that our assistance commitments to NATO base rights countries are designed to provide the resources necessary to allow these countries to assume the full share of their responsibilities as NATO partners. In the case of the Philippines, force modernization will be critical to the ability of the GOP to counter the insurgents and maintain internal stability.

Each country will seek the funds they believe are necessary to meet their needs. We will help them analyze those needs and try to construct assistance packages that best serve our mutual interests. We believe that our FY 1987 supplemental and FY 1988 requests contain the minimum resources necessary to achieve this critical objective.

Q: For FY 88, you have proposed a 60 percent increase in military aid for Turkey and a 26 percent increase for Greece. Do you believe that these requests ensure that the relative military strengths of Greece and Turkey are preserved, as required by Section 620C of the Foreign Assistance Act? Has Turkey used U.S. security assistance to upgrade its tank forces on Cyprus, as indicated by some recent press reports?

A: We believe that our requests meet the requirement to maintain the present balance in providing security assistance to Greece and Turkey. This administration, like its predecessors, does not believe, however, that any fixed ratio should be applied to our security assistance programs to these two countries.

The balance of power in the region depends on many other factors besides U.S. aid, and these are constantly changing. Moreover, Greece and Turkey have different military requirements, NATO roles and missions, and levels of economic development. Our assistance request for each is based on its particular needs and resources.

The budget process reduced our assistance to Turkey for FY 87 from a requested level of $820 to $490 million in FMS and MAP. That figure is well below what we believe is essential. We have made a "best-efforts" pledge to the Turkish Government to assist in the upgrading of Turkey's military forces and thus its ability to contribute to NATO strategy, a central goal we share with Turkey. In detailed joint planning efforts with Turkey over the past several years, we have agreed that at least $1 billion in assistance would be needed annually to modernize Turkey's forces so they could adequately meet their NATO responsibilities. Our request was designed to bring assistance to Turkey closer to the level we think desirable. The $490 million allocated for FY 87 will enable Turkey to meet payments on purchases already made but will not permit any new acquisitions.

Greece, on the other hand, currently has remaining $635 million in allocated FMS credits, after all planned acquisitions that we know of. That figure is composed of $292 million in FMS credits allocated through FY 86 plus the $343 million allocated in FY 87.

The upgrading of Turkish tanks that you refer to is being undertaken as part of Turkey's overall military modernization program and being carried out throughout the Turkish armed forces. U.S. military assistance helps fund the Turkish army-wide tank upgrade program. As a practical matter, it is to be expected that Turkish forces deployed to, or rotated from, Cyprus are likely to be equipped similarly to units of the Turkish armed forces elsewhere.

In recent years, both sides on Cyprus have increased their military capabilities. The Greek Cypriots have pointed to increases in Turkish forces and upgrading of their equipment. The Turkish Cypriots have pointed to the acquisition in recent years by the (Greek) Cypriot National Guard of armored vehicles, improvements in its anti-tank capability through the acquisition of the MILAN missile, and increases in its manpower.

Our general assessment is that while both sides have upgraded their military capabilities in recent years, there has been no significant change in military relationships on the island.

Budget Cuts

Question: If the budget resolution requires cuts from the Administration's Request on the order of 16%, as it did last year, how would you prioritize the funding request you have submitted?

Answer: A budget cut of 16% would represent a reduction of $3.1 billion for International Affairs, as a whole, and, if applied evenly, reductions of $353 million and $576 million in DA and ESF.

It is very difficult to be precise as to the potential effects of such a cut, because of the resulting tension within the 150 account. The appropriations subcommittees and the international affairs agencies would have to come to a consensus as to the specific effects within the 150 account.

If, however, cuts of 16% were passed along directly to the DA and ESF accounts, the net effect would be devastating. A.I.D. could be forced to eliminate or curtail severely entire country and/or central bureau programs. In ESF, for example, the reduction would leave available only about $3.024 billion. Assuming continued earmarks in the range of $2.98 billion, only $45 million would remain for other programs a compared to $571 million in FY 1987. The balance would be insufficient for unearmarked base rights and military access countries, priority requirements in Central America, and other important, but unearmarked countries.

Across-the-Board Cuts

Question: What would be the consequences of across the board cuts of 5-10 percent on your programs?

Answer: The FY 1988 request for Development Assistance (DA) and the Economic Support Fund (ESF) represents the Administration's considered judgment as to the minimum funding necessary to adequately address our developmental, humanitarian, and security objectives. Holding FY 1988 to the FY 1987 CR level would mean cuts of 6% and 1% in DA and ESF respectively (excluding deob/reob) from the FY 1988 request. An additional cut of 5% below the CR would mean reductions from the request of 14% in DA and 6% in ESF. Similarly, a level 10% below the CR, cuts DA by 18% and ESF by 11%. Cuts of this magnitude would have serious consequences for our ability to meet foreign policy objectives worldwide.

Africa. Cuts of 5%-10% from FY 1987 would reduce our aid to many African nations which are experiencing decline in per capita income, growing populations, and health deficiencies. The U.S. would be hamstrung in efforts to influence change in Southern Africa, and the Administration's committment to assist Africa would be in question when many African countries have undertaken economic reforms.

Asia and Near East. Reductions of 5%-10% in ESF would impact countries which are not earmarked. Israel, Egypt, and Pakistan account for 80% of the CR levels. Base rights countries are another 12% of the CP level. For reductions, we would have to either break earmarks, default on base rights/military access committments or take the reduction entirely from unearmarked but important programs such as Jordan, Ireland, and Morocco.

Programs for important countries such as Indonesia and India would have to be reduced. DA cuts may force reductions in countries which are important in the fight against narcotics such as Thailand and Burma. Reduced DA levels in the Philippines would hinder rural development and undercut efforts towards democracy and pacification.

Latin America and the Caribbean. DA/ESF reductions in Central America would hinder achievement of objectives in Central America under the Jackson Plan. Specifically, the success of several politically difficult economic reform programs would be undermined; economic growth would suffer;

unemployment would rise; political support for democratic government would be threatened; and the likelihood of debt default would increase.

In the Andes, cuts would undermine economic stabilization and curtail anti-narcotics programs, allowing the drug trade to threaten the political stability of several countries. Failure to provide the resources to battle narcotics increases the potential of a very dangerous linkage with terrorist groups.

Cuts in the Caribbean countries could impede export-oriented agricultural diversification programs and could undermine support for the Caribbean Basin Inititaive endangering economic and political stability in the region.

Central Programs. A reduction of 5% for S&T would jeopardize support for the International Agricultural Research Centers, prevent expanding research in biological diversity, and could force the scaling back of malaria vaccine testing. Reductions of 10% would prevent meeting increasing requests to support population efforts, prevent A.I.D. from meeting committments to HBCUs, and hinder a response to AIDS.

In FVA, cuts of 5%-10% from the CR would be reflected in reduced PVO levels which would send the worst possible signal to the PVO community and call into question our ability to comply with the 13.5%

earmark/16% target for PVO funding. In PRE, a 5% reduction from the CR constrains PRE's ability to develop prototype projects and provide mission support. New health and agriculture initiatives would be shelved. Cuts of 10% from the CR level would undermine the objective of seeking market solutions to development problems and eliminate the use of foreign assistance as leverage to attract private funds. The net result of reductions to PRE would be stagnation of the innovative private enterprise-based development program.

Operating Expenses. Holding operating expenses to the FY 1987 levels, or below, would make it very difficult for A.I.D. to manage without the use of program funds for OE, and further, could force cutbacks in staffing which would impair A.I.D.'s ability to manage its programs.

Budget Freeze

Question: If you had to live with a freeze at FY 1987 Continuing Resolution levels, what, in your view, would be the consequences in terms of our bilateral development effort?

Answer: The FY 1988 request for Development Assistance (DA) and the Economic Support Fund (ESF) represents the Administration's considered judgments as to the minimum funding necessary to adequately address our developmental, humanitarian, and security objectives. The FY 1988 Request reflects a modest increase over FY 1987. Increases include: the Development Fund for Africa; increased ESF funding for LAC; Disaster Assistance; and increased OE.

Holding FY 1988 to the CR level would undercut the new Development Fund for Africa (which increases

DA/ESF funding from $487 million to $600 million in FY 1988), delay the initiative in Southern Africa, and cut back resources for priorities such as natural resources, food production, and efforts to help control the growing grasshopper disaster.

In LAC, a freeze in ESF would impair our ability to restore funding for the support of democracy under the Central America Initiative. A reduction to the CR level also undercuts plans for increased ESF aid to the Caribbean and Andes countries, jeopardizing economic recovery and support for narcotics control.

A freeze in Disaster Assistance would amount to a 20% cut from the FY 1988 request, preventing adequate funding for critical disaster requirements.

The increase in OE reflects mainly the elimination of the use of program funds for OE, funding for the new retirement system, and the FY 1987 pay raise. Holding OE to FY 1987 levels could force cutbacks in staffing which would impair A.I.D.'s ability to manage its programs.

Development Assistance

Question: Since FY 1981 development assistance has actually declined in real terms while ESF has increased by more than percent and military aid has gone up by almost 80%. Why had development assistance received such a low priority in our overall foreign aid policy these past 6 years?

Answer: In looking at trends in foreign assistance funding, it is more appropriate to look at overall economic assistance rather than just Development Assistance.

The FY 1988 economic assistance request of $9.4 billion represents an increase of about 9% over FY

1987. Total economic assistance includes all forms of bilateral and multilateral assistance with (subfunction 151) of the Federal budget and the Economic Support Fund. The attached table shows the balance in foreign assistance between economic and military assistance since FY 1981. Total foreign assistance increased from $10.5 billion in FY 1981 to $20.8 billion in FY 1985 (with the Middle East Supplemental, dropping back to $13.6 billion in FY 1987. The FY 1988 Request restores the level to $15.2 billion. Economic assistance has remained a relatively constant 61%-63% of the total foreign assistance request since FY 1983.

DA remains an important foreign assistance priority. With economic assistance, there has been a steady balance between DA and ESF over most of the FY 1981-FY 1988 period. The table below indicates that, since FY 1982, DA has remained at about 38% of economic assistance, with the exception of FY 1985 when a DA dropped because of a large ESF supplemental appropriation for the Middle East enancted by Congress.

ESF increases which have occured are a reflection of political and strategic requirements--related, for example, to the Middle East peace process and base rights agreements--and to the short term economic needs of countries adversely affected by world economic trends. Moreover, about 30 percent of ESF is used, like DA, for project development activities.

Foreign Assistance (Billions)

	81	82	83	84	85	86	87	88
	Act.	Act.	Act.	Act.	Act.	Act.	Est.	Req.
Mil./Econ.								
Economic	7.3	8.2	8.7	9.1	13.2	9.1	8.6	9.4
Military	3.2	4.1	5.6	6.5	7.6	5.8	5.0	5.8
Total	10.5	12.3	14.3	15.6	20.8	14.9	13.6	15.2
Percentages								
Economic	70%	67%	61%	58%	63%	61%	63%	62%
Military	30%	33%	39%	42%	37%	39%	37%	38%
Total	100%	100%	100%	100%	100%	100%	100%	100%
Economic Assistance								
DA	1.7	1.8	1.8	2.0	2.5	2.1	2.1	2.2
ESF	2.1	2.9	2.9	3.2	6.2	3.8	3.6	3.6
Total	3.8	4.7	4.7	5.2	8.7	5.9	5.7	5.8
Percentages								
DA	45%	38%	38%	38%	29%	36%	37%	38%
ESF	55%	62%	62%	62%	71%	64%	63%	62%
Total	100%	100%	100%	100%	100%	100%	100%	100%

QUESTION: Foreign Aid Constituency. Ever since foreign aid began, observers have noted that there is no constituency for it. Is there a constituency for foreign aid in this country, and if so, how best can it be mobilized to build support for these programs?

ANSWER: Given the compassion and the common sense of the American people, we believe that there is a latent constituency in favor of foreign aid which will become more active when the grass-roots benefits of foreign assistance become better known. For example, few Americans know that nearly 80 percent of our foreign aid dollars are spent in the United States or that the developing countries, which receive 40 percent of our exports, now constitute our major regional trading partners.

Steps have been taken to increase public understanding. In its November, 1983 report, the Commission on Security and Economic Assistance, chaired by Mr. Frank Carlucci, recommended the establishment of a nonprofit, bipartisan organization to promote public understanding of and support for U.S. foreign aid programs. After extensive discussions, The Citizens Network for Economic and Security Assistance was incorporated in January, 1985 as a nonprofit, tax-exempt educational organization. (The name was changed to The Citizens Network for Foreign Affairs in November, 1986.) The educational objectives of The Citizens Network are to heighten public awareness, to serve as a forum for discussion of foreign assistance, and to disseminate information.

The Citizens Network links roughly 40 private, voluntary, professional, labor, trade, educational, and agricultural organizations. In January, 1987, a joint working group of The Citizens Network and the Atlantic Council of the United States issued a policy paper on "Building a National Foreign Affairs Constituency". Projects planned or underway include U.S. foreign agricultural assistance and the American farmer, the effect of U.S. development assistance on U.S. exports of goods and services, and the importance to the U.S.

economy of developing solutions to the Third World's external debt.

PVO PROGRAMS FOR MICRO-ENTERPRISES

Question: Legislation introduced in the House would make available additional resources to PVOs to establish lending programs for so-called micro-enterprises. What are your reactions to these proposals?

Answer: A.I.D. strongly supports expansion of credit programs for developing country private enterprise, including small enterprises. As a potentially important engine for growth in LDC's, successful micro-enterprise credit programs are currently receiving A.I.D. support in several developing countries. A.I.D. has documented the important role PVOs can play in working with people at the low end of the income scale, and we support the intent of the several proposals. However, we do have difficulties with specific provisions as noted below. A.I.D.'s position is more fully presented in testimony before the House Select Committee on Hunger on "Banking for the Poor", March 12, 1987.

A.I.D. has serious concerns with the Feighan Bill (H.R.910). The proposed legislation requires commitments of funds to micro-enterprise credit without recognizing and providing resources to overcome policy or institutional limitations, which may impair long-term program effectiveness.

By targeting only micro-enterprise credit, the bill would not permit flexible approaches adapted to local enterprise development needs. H.R.910 could also undermine recent efforts of Congress to provide grant rather than loan assistance, particularly to the relatively least developed countries.

With regard to Congressman Gilman's bill (H.R.1032), we believe this proposal would add serious constraints to Section 108 of P.L.480, which is a relatively new program. We are just beginning to resolve problems arising in the implementation of this program. A major earmark of Section 108 funds could undermine the program by reducing total available credit. Also, due to the 65 percent global earmark of Section 108 currencies to micro-enterprises, A.I.D. could be required to fund micro-enterprise programs faster than allowed by the absorptive capacity of the LDC beneficiaries and local intermediaries. Such funding could also jeopardize the privateness status of PVO's vis-a-vis their public-to-private funding ratio. Limiting the legislative target to businesses under 4 employees excludes those small businesses (5-20 employees) which research shows to have the greatest potential for sustainable employment and income benefits. We are also concerned that the requirement for A.I.D. to place "primary emphasis" on indigenous NGO intermediaries could preclude better-suited intermediaries in some countries, including U.S. PVO's. Finally, the enforcement of complex eligibility requirements for micro-enterprise credit programs will impose a serious burden on field staff at a time of shrinking personnel budgets.

In sum, we are fearful that the limitations placed on Section 108 would make it considerably more difficult (if not impossible) to meet either the global Section 108 target or the special target for micro-enterprises.

PVO STRENGTHS/WEAKNESSES

Question : If you were to identify some major strengths and major weaknesses of the PVOs what would they be? How can A.I.D. best utilize their strengths and improve their effectiveness?

Answer: A.I.D. submitted a study on the effectiveness of PVO development programs to the House Appropriations Committee on February 1, 1986. The study examines five diverse sectors in which PVOs have been active for evidence of successful and unsuccessful PVO performance. The sectors examined were small enterprise, health and nutrition, water and sanitation, agroforestry and animal agriculture. For each sector, an independent, recognized authority in the field assisted with the technical assessment of PVO effectiveness.

Common themes emerged from the sectoral analyses with respect to PVO effectiveness in conducting development programs and strengths and weaknesses of PVO performance. A summary is attached.

PVO effectiveness continues as a dominant theme of A.I.D.'s relationship with PVOs. Two major activities are underway to complement the findings of the effectiveness study. The Administrator recently sent a survey to all U.S. PVOs registered with A.I.D. and all A.I.D. Missions asking for a candid assessment of the strengths and weaknesses of collaboration between

A.I.D. and the U.S. PVO community. The results of the survey, expected to be complete in July 1987, will help shape the future relationship between A.I.D. and the U.S. PVO community.

In addition, the Advisory Committee on Voluntary Foreign Aid will devote its next four quarterly meetings to the analysis of PVOs as effective agents of development. At the end of this cycle, the Committee will make recommendations to A.I.D. and the PVO community designed to strengthen PVOs.

These two initiatives aim to identify how A.I.D. can best utilize PVO strengths and improve their effectiveness as development organizations.

PVOS: PROJECT APPROVAL PROCESS

Question : One major complaint from the PVOs over the years has been that A.I.D.'s project approval process is cumbersome, time consuming and costly. What steps have been taken to streamline this process?

Answer: During FY 1987 A.I.D. has initiated several changes to the grant making process to streamline the project approval process for Private and Voluntary Organizations (PVOs):

The Mandatory Standard Provisions for U.S., Nongovernmental Grantees have been completely revised. The revision, which is mandatory for all new grants and cooperative agreements with PVOs, is a much simplified document which reduces the number of standard provisions from thirty-four (34) to thirteen (13).

The PVO Field Guidelines have been revised and standardized to simplify the proposal preparation, reporting and evaluation of PVO Operational Program Grants and field support grants. These revised guidelines will be incorporated into A.I.D. Handbook 3.

The requirement for PVOs to submit Concept Papers has been eliminated from the Matching Grant process in its entirety thereby expediting the review and approval process.

Prior to FY 1987, the Agency accepted the recommendations of a special Task Force on Simplification of the PVO Field Process that was created to improve the PVO program and project implementation process. These recommendations resulted in program modifications which continue to be effective in streamlining the project approval process. These recommendations include:

(1) The provision that Missions should develop annual PVO planning levels as part of their Country Development Strategy Statement (CDSS) and Annual Budget Submission (ABS) program process. This will allow both USAIDs and PVOs to better plan and develop programs with realistic expectations for funding;

(2) Strong Agency endorsement of the use of PVO umbrella ("co-financing") projects by Missions as a valuable mechanism to simplify PVO relationships in appropriate country circumstances;

(3) Review of delegations of authority by Regional Assistant Administrators to assure increased Mission authority to approve Operational Program Grants (OPGs) to U.S. PVOs up to $1 million.

(4) Elimination of the requirement for Missions to submit Project Identification Documents (PIDs) and full proposals for OPGs to A.I.D./Washington for approval, up to the level of a field Mission's authority to approve OPGs.

RAISING THE PVO EARMARK

Question: Although A.I.D. has exceeded the legislatively mandated minimum for PVOs in recent years, it has been suggested that the PVO floor of 13 and 1/2 percent be raised to 15 percent and that the target be raised from 16 percent to 25 percent. What would your response to this suggestion be?

Answer: The importance the Agency attaches to PVOs in carrying out our development program is well-documented in the significant increases in A.I.D. funding for PVOs over the past decade. Also, starting with FY 1984, A.I.D. has consistently exceeded the 15 percent level. Therefore, we believe an earmarking of PVO support is unnecessary.

LEVEL OF SUPPORT FOR PVO PROGRAMS

Question: In FY 88, A.I.D. is requesting $290 million for PVO programs, channeled through the Development Assistance accounts and Economic Support Fund. What percentage of your program level budget does that represent?

Answer: Based on Section 123(f) of the Foreign Assistance Act, we project that 16.9 percent of A.I.D.'s proposed FY 1988 Development Assistance funding will be through PVOs. In fact, this percentage would be 18.3 percent if the increase in non-project assistance associated with the Development Fund for Africa (amounting to $122 million in FY 1988) were excluded from the calculation. This percentage is comparable to previous years: the FY 1986 request was 18.3 percent and the FY 1987 request was 18.2 percent. Both FY 1986 and FY 1987 levels increased as planning for the relevant operational year proceeded, because PVOs implement project components for which the mode of implementation is not initially identified.

NATURAL RESOURCES FUNCTIONAL ACCOUNT

Question: Legislation introduced in the House would in effect create a new functional account "natural resources." What is your reaction to this proposal? Does it make sense to pull together A.I.D.'s environmental programs into one new function or bureau?

Answer: The Agency is opposed to establishing additional functional accounts, which would essentially amount to another earmark of A.I.D. funds. Natural resources and environmental concerns are already incorporated in the Section 103 (Agriculture, Rural Development and Nutrition) Account and can be supported thru Section 106, ESF and P.L. 480 programs. The Development Fund for Africa, proposed in this year's Congressional Presentation, eliminates all functional accounts in order to increase the flexibility of U.S. assistance programs to better focus necessary economic reforms, policy adjustments, and expanded private, voluntary, and corporate involvement. The Agency would like to see this approach adopted worldwide.

It would also be counterproductive to organize A.I.D.'s environmental and natural resource programs into one bureau. These activities are funded from several accounts because they are closely related to agriculture, health, and many private sector initiatives. We feel it is essential, therefore, to have qualified technical staff in all central and regional bureaus in A.I.D./Washington and in key locations overseas, particularly as it is Agency policy to decentralize programmatic decision making to our field missions.

A.I.D. TROPICAL FORESTRY PROGRAM

Question: Please describe A.I.D.'s program for tropical forestry.

Answer: A.I.D.'s tropical forestry program is active in 40 developing countries located in three geographic regions. Currently active projects total 100 with life-of-project (LOP) funding for forestry activities of $491 million. An additional 19 projects are to be initiated with LOP funding of $161.7 million.

A.I.D. has made significant breakthrus in various areas of tropical forestry in the developing countries. Most importantly, forestry is increasingly treated as an integral part of economic development. This has been accomplished thru the development of intersectoral programs which combine forestry and agriculture (ex., agroforestry, alley cropping, fast-growing Nitrogen-fixing trees, etc.) and forestry and energy (ex., multipurpose trees, fuelwood plantations, etc.).

The Agency's forestry portfolio will emphasize several emerging themes:
--development of multipurpose trees for sustained agricultural production. The objective of this is to provide poor people with tree/food cropping systems

that are viable alternatives to destructive shifting agriculture practices;

--strengthening the capacity of developing countries for natural resources management, giving emphasis to water and soil resources management for sustained agricultural production;

--conservation of biological diversity and the importance of tropical forests as major sources of biological diversity;

--reclamation of forestlands that have been converted to wastelands as the result of overly intensive agricultural practices. The objective here is to control erosion and restore land productivity.

A.I.D. has been a leading participant in various global activities that are aimed at tropical forest conservation (i.e., wise utilization). In cooperation with the International Union of Forestry Research Organizations (IUFRO) and foreign assistance donors, the Agency is actively involved in strengthening forestry research in the developing countries. A.I.D. has also been instrumental in the development of the global Tropical Forestry Action Plan (TFAP), and it is currently working with World Resources Institute, World Bank, FAO, the United Nations Development Programme (UNDP), and other international organizations to conserve the tropical and subtropical forests.

BIOLOGICAL DIVERSITY

Question: Section 119 of the Foreign Assistance Act enacted in 1983 authorizes A.I.D. to develop a U.S. strategy to protect and conserve biological diversity in developing countries. Last year Congress earmarked $2.5 million for this purpose. Your Congressional Presentation indicates you intend to "expand" your biodiversity program. How much do you intend to spend for this activity:

Answer: The recent A.I.D. Report on Progress in Conserving Biological Diversity in Developing Countries FY 1986 demonstrated that A.I.D. devoted some $2.6 million dollars during FY 1986 for biological diversity protection activities as defined in Section 119(b) of the Foreign Assistance Act (FAA) as amended. We estimate that $2.8 million will be spent for biological diversity protection activities during FY 1987. In addition, A.I.D. will obligate the $2.5 million identified by the Congress for new activities in FY 1987, providing a total of $5.3 million dollars in FY 1987 for new and/or continuing biological diversity activities.

The Administrator has recently approved $4 million dollars in FY 1988 for new biological diversity protection activities. Combined with estimated ongoing commitments of at least $3 million during FY 1988, a total of $7 million would be available for biodiversity protection activities during FY 1988.

FUNDING FOR UNFPA

Question: What is the status of the U.S. contribution to the United Nations Fund for Population Activities?

Answer: The FY 1987 budget contains $25 million for the UNFPA. However, A.I.D. will be able to consider funding UNFPA in 1987 and subsequent years only if significant changes either in UNFPA's program in the People's Republic of China or in the Chinese population program itself, permit us to conclude that UNFPA does not support or participate in the management of a program of coercive abortion or involuntary sterilization.

In 1985, A.I.D. withheld part of the U.S. contribution to the UNFPA because of UNFPA support for the population program in the People's Republic of China. The same year, legislation was passed prohibiting A.I.D. from funding any organization which "supports or participates in the management of a program of abortion or involuntary sterilization." In 1986, A.I.D. provided no funds to UNFPA.

If we are unable to resume funding for UNFPA, I expect to redirect the funds reserved for UNFPA in FY 1987 to other voluntary family planning programs in developing countries.

FAMILY PLANNING IN CHINA

Question:	Have you personally reviewed the family planning program in China? What is your current assessment of their practice with respect to coerced abortion?
Answer:	AID conducted an internal investigation of the Chinese population program in 1985 to review the evidence concerning coercive family planning practices. Evidence from a variety of sources led us to conclude that the one-child-per-family policy had led to coercion in the Chinese family planning program. On the basis of these findings I determined that the Kemp/Inouye/Helms Amendment was applicable to UNFPA because UNFPA participated in the management of a program of coercive abortion and involuntary sterilization as a result of the

assistance UNFPA provided to the population program of China.

In 1985, AID withheld $10 million from the U.S. contribution to UNFPA, and in 1986, we provided no funds for UNFPA. I have consistently stated that we cannot resume funding unless there are significant changes in the UNFPA program in China or in the Chinese program itself.

I do not currently have information indicating a significant change in the Chinese one-child policy or in their population program.

FUNDING FOR IPPF

Question: Several years ago A.I.D. terminated its grant program for the International Planned Parenthood Federation (IPPF). Are there plans to review A.I.D.'s policy towards IPPF? Has IPPF implemented changes recommended by A.I.D.?

Answer: A.I.D. policy supports voluntary family planning but opposes abortion as a method of family planning.

In 1984 we stopped funding any foreign non-governmental organizations which support abortion with funds from any source. Under this policy we no longer provide support for International Planned Parenthood Federation, a London-based organization some of whose affiliates fund abortion activities.

IPPF has not changed its policy or activities with respect to abortion and therefore remains ineligible for funding.

A.I.D.'s policy on family planning support for foreign nongovernmental organizations the policy has been implemented effectively, and a major portion of the population assistance program continues to be implemented through nongovernmental organizations. For example, agreements implementing the policy have been executed with such prominent family planning organizations as the Pathfinder Fund, International Planned Parenthood Federation/Western Hemishpere Region, the Association for Voluntary Surgical Contraception, The Population Council, and others.

UNIVERSAL IMMUNIZATION

Question: How close is A.I.D. to meeting the statutory target of 80 percent immunization in A.I.D.-recipient countries by the year 1990?

Answer: A.I.D. is committed to the international effort to develop the sustained capacity to immunize the world's children. The Agency is helping countries to set targets and move toward full immunization of 80 percent of their children.

According to W.H.O. data, an average of roughly 30 percent of children in A.I.D.-assisted countries have been immunized against each of the major vaccine-preventable diseases of childhood (see attached table based on most recent W.H.O. data, 1985).

This estimated average masks important regional, inter-country and disease-specific differences.

Some A.I.D.-assisted countries have already achieved 80 percent coverage of children who are one year old (12-23 months). Examples include: Botswana, Lesotho, Cyprus, Panama. Many other countries are close to achieving this goal.

In general, eighty percent coverage will be most difficult to achieve in countries that lack basic infrastructure, trained manpower and an informed population. In Latin America and the Caribbean, where health systems are better developed and coverage rates are already high, 80 percent coverage is probably achievable by 1990.

In many African and South Asian countries, where the vaccine-preventable diseases take their greatest toll, progress will be slower. Nevertheless, thru emphasis on programs in the countries with lower coverage rates, significant reductions in infant and child mortality can be achieved over the next four years.

Currently, coverage is highest for BCG (tuberculosis). Measles immunization, which protects against the greatest single killer of children, is generally lower. Immunization with tetanus toxoid - which must be administered to the mother to protect the newborn - is also lagging, with an average of only 14 percent of appropriate women in A.I.D.-assisted countries protected by immunization against tetanus.

CHILD SURVIVAL FUND

Question: Describe A.I.D.'s child survival project portfolio since Congress created the Fund in 1984.

Answer: Since Congress created A.I.D.'s child survival Fund in 1984, the Agency has submitted two reports which describe the project portfolio. They deal with FY 1985 and FY 1986.

Both are attached.

Appendix 1 FISCAL YEAR 1985 CHILD SURVIVAL ACTION PROGRAM*

COUNTRY	TITLE	CSF ($1,000's)	HE ($1,000's)	NUT ($1,000's)
AFRICA				
BOTSWANA	GRANT TO UNDP—Technical assistance to improve prenatal services with focus on causes of maternal, infant, and child mortality.	344		
CAMEROON	IMPROVING FEEDING PRACTICES WITH WEANING CHILDREN—Technical assistance to Cameroon to improve child feeding practices.			200
CHAD	GRANT TO UNDP—Expanded immunization program includes provision of vaccine, equipment and training.	1,123		
DJIBOUTI	GRANT TO UNICEF—Support for ORT expansion and Spring 1986 immunization campaign through an indigenous private voluntary organization.	700		
GHANA	IMPROVING FEEDING PRACTICES WITH WEANING CHILDREN—Technical assistance to Ghana to improve child feeding practices.			200
	GRANT TO TUSKEGEE UNIVERSITY—Small research grant for Child Survival related activities in nutrition.			100
KENYA	CHILD SURVIVAL INTERVENTIONS THROUGH HOME LEAGUES—PVO: Grant to Salvation Army World Service Office to train low income women to promote growth monitoring, ORT, immunization, and breastfeeding.		149	
	APPLIED NUTRITION PROGRAM—PVO: Grant to Meals for Millions for community-based health and nutrition interventions.			255
MALAWI	VITAMIN A INTERVENTION—PVO: Grant to International Eye Foundation for Vitamin A capsule distribution, measles immunizations and promotion of ORT in Lower Shire Valley.	442		
	EXPANSION OF ORT TO REDUCE INFANT AND CHILD DEATHS—PVO: Grant to Adventist Development Relief Agency to train health workers in ORT, immunization nutrition and child spacing in northern Malawi.		308	
NIGERIA	GRANT TO UNICEF—Training in immunization and ORT activities of 250,000 nurses, health care workers, and medical professionals through private professional associations.	900		
RWANDA	REDUCTION OF INFANT AND CHILD DEATHS—PVO: Grant to Adventist Development Relief Agency to train health workers to provide ORT and immunizations		270	
SIERRA LEONE	CONTRIBUTION TO UNDP—Two ORT demonstration and training centers will be established to train health workers in ORT.	300		
	APPLIED NUTRITION PROGRAM—PVO: Grant to Meals for Millions for community-based health and nutrition interventions.			180
SOMALIA	EMERGENCY HEALTH SERVICES—PVO: Grant to AMREF for emergency health services in villages near refugee settlements.		2,000	
	GRANT TO UNDP—Expanded ORT and immunization program will include establishing ORS production facility and provision of cold chain equipment for vaccines.	655		
SUDAN	GRANT TO UNICEF—Immunization, ORT, and health education activities will be conducted through four indigenous private voluntary organizations.	700		
TOGO	GRANT TO UNDP—A national immunization program for yellow fever and meningitis will be expanded.	170		
UGANDA	COMMUNITY HEALTH SERVICES—PVO: Grant to CARE to reach 135,000 children under five through community-health worker network.		512	
	RURAL HEALTH PROJECT WITH MAKERERE UNIVERSITY—PVO: Grant to Minnesota International Health Volunteers (MIHV) to extend health services to children under 5 years and mothers.		344	
ZAMBIA	GRANT TO UNDP—Support will be given to child-survival-related activities in 15 districts most affected by drought conditions.	648		
ZIMBABWE	GRANT TO UNDP—Expansion of PVO community-based activities through training of local women in child survival technologies.	260		
	PROTECTING LIFE AND HEALTH OF CHILDREN—PVO: Grant to Save the Children Federation to expand ORT, growth monitoring, immunization, breastfeeding, and child feeding activities.	964		

* This chart describes activities funded in FY 85 with additional appropriations: Health (HE), $50 million; Child Survival Funds (CSF), $25 million; and Agriculture, Rural Development and Nutrition (NUT), $10 million. Other funds which may have been obligated for these projects in FY 1985 are not included in this chart.

COUNTRY	TITLE	CSF ($1,000's)	HE ($1,000's)	NUT ($1,000's)
	PRIMARY HEALTH CARE—PVO: Grant to World Vision Relief Organization to expand immunization coverage and use of ORT through a national ongoing primary-health-care program.		690	
REGIONAL	GRANT TO MOREHOUSE COLLEGE—Training African medical personnel in child survival strategies.		897	
	GRANT TO ATLANTA UNIVERSITY—Conference on water and sanitation problems of sub-Saharan African countries.		531	
	NUTRITION SURVEYS AND SURVEILLANCE—Assistance for nutrition surveys and nutritional surveillance systems through a grant to Cornell University.			600
	REDUCING NUTRITIONAL BLINDNESS—Program to reduce nutritional blindness through Vitamin A distribution in countries in Africa and to evaluate impact of Vitamin A on child mortality and morbidity.			800
	DIETARY MANAGEMENT OF DIARRHEAL DISEASES—Technical assistance and training of African health personnel in dietary management approaches to diarrhea.			500
	AFRICA SUBTOTAL	7,206	5,701	2,835
ASIA/NEAR EAST				
BANGLADESH	ORT SOCIAL MARKETING—Nationwide ORT social marketing project through 100,000 outlets within the country building on experience with successful family-planning social marketing project.	5,000		
	VITAMIN A PROGRAM—PVO: Grant to Helen Keller International to distribute Vitamin A capsules to three million children under five.	200	559	
	JESSORE RURAL HEALTH CARE—PVO: Grant to Salvation Army World Service Organization to upgrade and expand health services for mothers and children.		611	
	EXPANDING CHILD SURVIVAL ACTIVITIES—PVO: Grant To Save the Children Federation to expand ORT, immunization, and growth monitoring activities in 17 rural villages.	276		
	GRANT TO UNICEF—Diarrheal-disease control and nutrition activities through the International Red Cross for its Child Alive programs in Bangladesh.	500		
INDIA	TECHNICAL COLLABORATION—Support to collaborative efforts of Government of India and the U.S. Department of Health and Human Services focused on vaccine production and delivery.		520	
	TECHNICAL ASSISTANCE FOR SUPPORT CHILD SURVIVAL—Long term technical expertise to India in ORT and immunization through PRITECH.		980	
	GRANT TO UNICEF—Immunization, diarrhea management, growth monitoring, and health and nutrition education will be supported through indigenous private voluntary organizations.	2,000		
	GRANT TO UNICEF—Grant through UNICEF to International Red Cross for diarrheal control and nutrition activities in its Child Alive programs in India.	500		
INDONESIA	MATERNAL AND CHILD HEALTH PROGRAM—Training village health workers in Title II program including nutrition education and growth monitoring.		1,500	
	GRANT TO UNICEF—Support for immunization and ORT through religious organizations, women's groups,and other groups.	1,200		
	HEALTH AND CHILD SURVIVAL—PVO: Grant to Save the Children Foundation to promote 10 "child protective" behaviors in a densely populated slum area of Jakarta.	237		
	CHILD SURVIVAL PROJECT—PVO: Grant to CARE to train 750-900 village health workers to promote and train mothers in ORT.		331	
	VITAMIN A PROGRAM—PVO: Grant to Helen Keller International to integrate vitamin A delivery into child survival programs in Aceh and West Java.		766	
	CHILD SURVIVAL ACTIVITIES IN INTEGRATED PHC PROGRAM—PVO: Grant to Project Concern International to train health workers and traditional birth attendants in north and south-east Sulawesi and in Riau.		500	
NEPAL	INTEGRATED RURAL HEALTH PROGRAM—Nationwide expansion of ORT and immunization through integrated rural health program, and pilot activities in acute respiratory infections.		1,000	
	APPLIED NUTRITION PROGRAM—PVO: Grant to Meals for Millions to expand community-based programs in nutrition and immunization.			200

COUNTRY	TITLE	CSF	HE	NUT
		($1,000's)	($1,000's)	($1,000's)
PAKISTAN	EXPANSION OF PRIMARY HEALTH CARE SERVICES—PVO: Grant to Salvation Army World Service Office to intensify ORT and immunization activities in ongoing PHC outreach programs.		626	
PHILIPPINES	PRIMARY HEALTH CARE FINANCING—Increase national use of ORT through acceleration of private production, commercial marketing and use of mass media and home-based ORS preparation.		4,000	
THAILAND	APPLIED NUTRITION PROGRAM—PVO: Grant to Meals for Millions to improve nutritional status in rural development programs through training and nutrition planning.			225
TURKEY	GRANT TO UNICEF—Support to national immunization campaign conducted in part through indigenous private organizations.	1,000		
REGIONAL	STRENGTHENING PHC PROGRAMS IN ASIA—Grant to University of Hawaii to support PHC programs in Asia through Asia-Pacific Consortium.		2,200	
	REDUCING NUTRITIONAL BLINDNESS—Program to reduce nutritional blindness through Vitamin A distribution in Asia and to evaluate impact of Vitamin A on child mortality and morbidity.			2,400
	SAN DIEGO LACTATION PROGRAM—Intensive training program for Nurse/Physician teams to improve infant feeding practices in the Near East.			100
	IMPROVING FEEDING PRACTICES—Improve feeding practices of weaning-aged children in the Near East.			100
	ASIA/NEAR EAST SUBTOTAL	10,913	13,593	3,025
LATIN AMERICA AND THE CARIBBEAN				
ANTIGUA	APPLIED NUTRITION PROGRAM—PVO: Grant to Meals for Millions for nutrition intervention focusing on training and nutrition planning.			60
BELIZE	GRANT TO LINCOLN UNIVERSITY—Small research grant for child-survival related nutrition activity.			79
BOLIVIA	CHILD SURVIVAL ACTION PROGRAM—PVO: Grant to CRS to introduce ORT and child growth-monitoring programs into 1,800 Caritas Mother's Clubs.		84	300
	PRITECH—Technical assistance support to Mother's Clubs programs.		300	
	CHILD SURVIVAL ACTIVITIES IN PHC PROGRAMS—PVO: Grant to Project Concern International to reach more than 10,000 children in remote communities with child survival technologies.		525	
	ENHANCING CHILD HEALTH AND SURVIVAL—PVO: Grant to Save the Children Federation for ORT, immunization, and nutrition services in a community-based primary health-care system.	669		
	RURAL HEALTH EDUCATION—PVO: Grant to CARE to train local teachers, health workers, and other leaders in 126 communities in diarrheal-disease control.		625	
	APPLIED NUTRITION PROGRAM—PVO: Grant to Meals for Millions for community-based nutrition intervention.			165
ECUADOR	CHILD SURVIVAL ACTION PROGRAM—Nationwide immunization and ORT program launched Oct. 26, 1985 with first immunization day. Expands successful integrated rural health programs.		3,000	
	MALARIA CONTROL PROJECT—Assistance to National Malaria Eradication and Vector Control Service to reduce malaria-related morbidity and mortality, particularly among pregnant women and small children.		4,000	
	APPLIED NUTRITION PROGRAM—PVO: Grant to Meals for Millions for village-based nutrition intervention in 10 pilot communities.			500
	CHILD SURVIVAL PROGRAM FOR MARGINAL URBAN AREAS—PVO: Save the Children Federation will promote 10 "child protective" behaviors to reach 26,800 children under five.	724		
	APPLIED NUTRITION PROGRAM THROUGH WOMEN'S CLUBS—PVO: Catholic Relief Services will establish self-sustaining nutrition programs operated through women's clubs.	314	47	
GUATEMALA	IMMUNIZATION/CHILD SURVIVAL—Expansion and institutionalization of immunization in 21 areas for children ages four and under through "channelization" of services in existing health system.		3,000	
	MOTHER AND CHILD HEALTH—PVO: Grant to Project HOPE to increase access to effective use of ORT in selected Indian communities.	700		

COUNTRY	TITLE	CSF	HE	NUT
		($1,000's)	($1,000's)	($1,000's)
HAITI	MOBILIZING MOTHERS FOR CHILD SURVIVAL—Expansion of proven ORT, immunization, nutrition, and family-planning interventions targeted to mothers at risk of children of prenatal or early infant death.	3,000		
	CHILD SURVIVAL PROGRAM JACMEL—PVO: Foster Parents Plan will expand health services to young children and their mothers in the Jacmel region.		474	
	CHILD IMMUNIZATION PROJECT—PVO: Adventist Development Relief Agency will expand ORT and immunization programs to mothers and children near Port-au-Prince.		310	
	COMMUNITY-INTEGRATED NUTRITION AND EDUCATION CENTERS—PVO: Grant to CARE to enhance basic health services to 30,000 children and pregnant mothers.		696	
	CHILD SURVIVAL PROJECT—PVO: Grant to International Child Care to immunize 150,000 children and mothers.	408		
	CHILD SURVIVAL PROGRAM THROUGH HOME LEAGUES—PVO: Grant to Salvation Army World Service Office to increase immunization and promote ORT through women's groups.		143	
HONDURAS	APPLIED NUTRITION PROGRAM—PVO: Grant to Meals for Millions for community-based nutrition and health interventions.			95
PERU	NUTRITION FOR CHILD SURVIVAL ACTION PROGRAM—PVO: Grant to CARE for support for local community-based PVO nutrition program.			35
	PVO HEALTH PROMOTION NETWORK—PVO: Grant to Seton Institute for International Development to promote child survival technologies to two million women and children in Arequipa, Trujillo, and Lima.			260
	TRAINING IN ORT FOR MEDICAL PROFESSIONALS—Grant to Universidad Peruano Cayetano Heredia to train physicians and nurses in management of diarrheal diseases with emphasis on ORT.			5
	ORT MASS MEDIA PROGRAM FOR CHILD SURVIVAL—Technical assistance through the Communications for Child Survival project to promote ORT and immunization via the media.		500	
	DIETARY MANAGEMENT OF DIARRHEA DISEASES—Technical assistance and training of health personnel in dietary approaches to diarrhea.			500
REGIONAL	REDUCING NUTRITIONAL BLINDNESS—Program to reduce nutritional blindness through Vitamin A distribution in the Americas.			300
ROCAP	ORT, GROWTH MONITORING AND EDUCATION—The Institute for Nutrition for Central America and Panama, in collaboration with appropriate ministries and private institutions in the region, to support programs to reduce infant and child mortality and severe malnutrition.		5,500	
	LATIN AMERICA AND THE CARIBBEAN SUBTOTAL	5,815	19,204	2,299
WORLDWIDE				
GLOBAL	JOHNS HOPKINS INSTITUTE FOR INTERNATIONAL PROGRAMS—Program to improve child survival technologies and evaluation techniques.	1,066	156	
GLOBAL	PHC TECHNOLOGY I (PRITECH)—Technical assistance in Child Survival initiatives, especially ORT.		2,109	
GLOBAL	PHC TECHNOLOGY II (REACH)—Worldwide technical support for immunization and financing of child survival programs.		2,000	
GLOBAL	VECTOR BIOLOGY AND CONTROL—Field support to improve the design and management of efforts to control vector-borne diseases.		580	
GLOBAL	ORT HEALTH EDUCATION AND LONG TERM PLANNING—Information dissemination focusing on ORT.		2,989	
GLOBAL	COMMUNICATIONS FOR CHILD SURVIVAL (HEALTHCOM)—Expanded use of mass media for child survival programs.		95	1,200
GLOBAL	CHILD SURVIVAL ACTION PROGRAM—Develop statistical baseline to evaluate child survival programs.		30	
GLOBAL	SUPPLY, PRODUCTION AND PROMOTION OF ORT (SUPPORT)—Expand local production and procurement of ORS, providing technical assistance and loan financing to developing country producers.		2,000	

COUNTRY	TITLE	CSF ($1,000's)	HE ($1,000's)	NUT ($1,000's)
GLOBAL	SMALL RESEARCH GRANTS TO HISTORICALLY BLACK COLLEGES AND UNIVERSITIES—		69	
	—Atlanta University			92
	—Howard University		351	
	—Morehouse University		321	
	—Benedict College			89
	—Drew Medical School		280	
	—Tuskegee University			100
	—Texas Southern University		46	
	MEALS FOR MILLIONS—PVO: Matching grant for child survival activities.			320
	TECHNICAL SUPPORT FOR CHILD SURVIVAL—Assistance to PVO's to design, monitor and evaluate child survival projects.		476	40
	WORLDWIDE SUBTOTAL	1,066	11,502	1,841
	GRAND TOTAL	25,000	50,000	10,000

Appendix 2 AID's INVOLVEMENT IN DEVELOPMENT AND PROMOTION OF ORT

Early Clinical Studies

1960's	U.S. Navy (NAMRU-2) builds on early work and initiates clinical balance studies on adults documenting the importance of glucose in oral rehydration therapy for cholera in San Lorenzo Hospital, Manila
	AID* and NIH fund the Pakistan SEATO Cholera Research Laboratory (CRL) in Dacca, East Pakistan (now Dhaka, Bangladesh). NIH funds the International Center for Medical Research and Training at the Infectious Disease Hospital, Calcutta, (ICMRT) through a grant to researchers at the Johns Hopkins University. Researchers in these institutes conduct research that confirms NAMRU's work and take the lead in research on oral fluid therapy.
1968	CRL researchers publish reports of use of oral rehydration solutions as maintenance therapy for eight adult cholera patients
1969	ICMRT researchers report even more favorable results in twenty patients. Only one patient required intravenous solutions to recover
1970	CRL researchers report successful use of ORT in dehydrated children
	CRL, ICMRT researchers report successful use of ORT for dehydration produced by diarrheas of diverse etiologies
1971	WHO sponsors conference which recognizes current glucose, sodium, potassium, bicarbonate formulation developed by CRL and ICMRT
1972	Ex-CRL researcher reports use of ORT in Apache children in the U.S. This is the first use of ORT for rehydration of children outside the Indian subcontinent

Field Studies

1970	AID continues as lead donor to CRL as research moves to field studies:
	CRL researchers report that ORT can be used successfully under field conditions in rural treatment centers during epidemic outbreaks of cholera
1975	CRL researchers report use of ORT in a crowded camp for Bangladeshi refugees during epidemic, 3,703 patients were treated with 3.6 percent mortality compared to 25 percent in camps not yet using ORT
1980	Researchers in the Philippines document the nutritional benefit of ORT in a large field trial
	AID funds research at ICDDR,B to improve formulation to enhance nutritional benefits of ORT

Development and Institutionalization

1978	U.S. supports World Health Assembly resolution calling for creation of systematic attack on diarrheal diseases. This leads, in the 1980s, to development of program for Control of Diarrheal Diseases (WHO/CDD) to assist National Diarrheal Disease Control Programs in collaboration with UNICEF, AID, UNDP, and other donors and countries.
1979	CRL is reorganized as the International Center for Diarrheal Disease Research, Bangladesh. AID, still the largest single donor, pledges increased funds to expand the scope of work of the Center
1980 to 1985	AID funds pilot ORT delivery programs in Egypt, Honduras, and The Gambia.

FY 1986 Child Survival Action Program

Country	*Title*	*Child Survival Fund (1,000's)*
AFRICA		
CAMEROON	**Child Protective Training for Families-PVO:** Grant to Save the Children Federation extending community based immunization, ORT, family planning, and nutrition activities in rural areas of three provinces.	370
KENYA	**Community Health Services-PVO:** Grant to African Medical and Research Foundation for 10 child survival interventions to reach nomadic and settled communities.	750
MALAWI	**Protecting the Life and Health of Children Through Family Training-PVO:** Grant to Save the Children Federation to work through local health resources to introduce nine interventions in family and community health practices.	280
MALI	**Macina Child Health Care Project-PVO:** Grant to CARE to immunize children and instruct mothers in the use of oral rehydration therapy in 163 villages.	550
MALI	**Immunization Program-PVO:** Grant to Foster Parents Plan to reduce infant and child mortality by vaccinating children in 205 villages against the six vaccine preventable diseases.	200
NIGERIA	**Africa Child Survival Initiative-CCCD** – An ORT, immunization, and malaria treatment program to reach nineteen million children 0-5 years old.	2,000
NIGERIA	**IMO State Child Survival Program-PVO:** Grant to AFRICARE for work through the women's association to improve the nutritional status of children and the promotion and use of ORT.	440
SENEGAL	**Louga Department Child Survival Interventions-PVO:** Grant to World Vision Relief Organization to implement accelerated immunization, promotion of ORT, health education, and malaria prophylaxis.	270
SENEGAL	**Health Services, Diourbel Region-PVO:** Grant to Catholic Relief Services to immunize 55,000 children ages 0-2 years old as well as to increase the awareness and use of ORT by mothers and grandmothers in the region.	440
SUDAN	**North Kordofan Child Health Project-PVO:** Grant to CARE to reduce morbidity and mortality of children under five in the North Kordofan region through child immunization and ORT interventions.	750
SUDAN	**Reduction of Infant and Child Deaths-PVO:** Grant to World Vision Relief Organization for a child survival project in the Gezira region, which is recovering from an acute food crisis.	370
SUDAN	**Protecting the Life and Health of Children Through Family Training: UM Ruwaba District-PVO:** Grant to Save the Children Federation to assist the Ministry of Health in training health personnel to enable them to implement ORT and immunization activities.	580
ZAIRE	Africa Child Survival Initiative-CCCD – Introduces and extends immunization, ORT, and malaria treatment to 3.1 million children 0-5 years old.	2,000
	SUBTOTAL	9,000
ASIA/NEAR EAST		
BANGLADESH	**Urban Volunteer Program** – Targeted to reach one million children in Dhaka with immunization, ORS packets and Vitamin A distribution, as well as nutrition and health education activities.	2,000
INDIA	**Child Survival Support** – Grant to assist the Government of India in its programs to extend universal child immunization and diarrheal disease management in cooperation with UNICEF.	6,000
MOROCCO	**Nationwide Neonatal Tetanus Immunization Support** – Accelerates the national vaccination program through vaccine purchase, cold chain and sterilization support, training, and a public information campaign.	2,000
	SUBTOTAL	10,000

LATIN AMERICA/CARIBBEAN		
BOLIVIA	**Enhancing Child Health-PVO:** Grant to CARE involves women in target communities through women's clubs to teach ORT, immunization, nutrition, and proper hygienic practices.	500
BOLIVIA	**Child Survival Health Promotion-PVO:** Grant to Esperança to provide health services to persons living in the isolated jungle region of Chaco with emphasis on immunization, ORT, iodine supplementation, and nutrition education.	550
BOLIVIA	**Child Survival Activities in Primary Health Care Project-PVO:** Grant to Project Concern International to train community health workers and traditional birth attendents in promoting child survival interventions.	500
BOLIVIA	**Maternal and Child Health Interventions-PVO:** Grant to Foster Parents Plan for a series of targeted health activities in three provinces including immunization, ORT, and a focused nutrition package.	500
GUATEMALA	**Immunization/ORS for Child Survival** — Program to reach 80% of all children under 5 years of age and 80% of pregnant women throughout the country through training, provision of vaccines, cold chain equipment and transportation, as well as the production and distribution of ORS.	1,600
GUATEMALA	**Training for Child Health-PVO:** Grant to Project Concern International will create a training system for an expanded primary health care network with an immunization and preventive health education focus.	400
HAITI	**Mobilizing Mothers for Child Survival** — Expansion of ORT, immunization, nutrition and family planning services through an association of local PVOs.	2,400
REGIONAL	**Accelerated Immunization** — Grant to Pan American Health Organization to assist countries in the Americas develop and carry out National Plans of Action to strengthen immunization services and to eradicate poliomyelitis in the region by 1990.	3,000
	SUBTOTAL	9,450
GLOBAL		
GLOBAL	**Technologies for Primary Health Care** (PRITECH) — Worldwide field support for Oral Rehydration Therapy program.	1,200
GLOBAL	**Resources for Child Health** (REACH) — Worldwide field support for immunization and financing of child survival programs.	1,500
GLOBAL	**Communication for Child Survival** (HEALTHCOM) — Worldwide field support to expand use of mass media for child survival programs.	1,500
GLOBAL	**Diarrheal Disease Research** — Research and training on diarrheal diseases and information dissemination about their control and treatment.	1,050
GLOBAL	**DiaTech** — PVO: Development of rapid and sensitive diagnostic procedures for diseases affecting children in developing countries. Program for Appropriate Technology in Health (PATH).	875
GLOBAL	**Applied Diarrheal Disease Research** — Country-specific applied research to adapt new and improved technologies for the control of diarrheal diseases.	950
GLOBAL	**Child Survival Action Program** — Development of improved immunization strategies and better evaluation tools for child survival programs.	550
GLOBAL	**Technical Assistance to PVOs** — Assistance to PVOs to design, monitor, and evaluate child survival projects.	350
	SUBTOTAL	7,975
	GRAND TOTAL	36,425*

* In addition to the Child Survival Fund, in FY 1986 AID obligated $213.249 million from the Health Account (including a $12.5 million earmark for Child Survival), $30.778 million of Economic Support Funds, and $9.857 million from the Sahel Development Account, totalling $253.884 million for its worldwide health program. Of these funds, missions and bureaus report that $150.2 million is being used for child survival activities. Funds from the Population and ARDN accounts and Public Law 480 also support child survival efforts.

RESPONSES OF SECRETARY BAKER TO QUESTIONS ASKED BY SENATOR PELL

Secretary Baker: The tentative agreement we reached with Japan, Canada and Italy during the IDA VIII negotiations involves the U.S. releasing 2 percent of its allocated shares in the IBRD to these countries. The agreement will result in a fall in the total potential relative voting power of the United States in the IBRD to 18.07 percent from the current 19.98 percent. The United States will continue to be the largest shareholder in the IBRD by a wide margin, however. Japan, the second largest shareholder, will have only a 6.42 percent share in the institution even after we release our shares. In my judgement, the 2 percent reduction in our IBRD shareholdings will not have a significant impact on our ability to influence the decision making of the institution.

Effect of Share Allocation

(percent)

Country	Position as of Dec 1986*	Resulting Position*
France	4.76	4.76
Germany	4.96	4.96
Japan	4.98	6.42
Italy	2.77	3.08
Canada	2.91	3.08
UK	4.76	4.76
US	19.98	18.07

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*Potential relative voting power

Secretary Baker: Below is a list of all the Multilateral Development Bank (MDB) loans opposed by the United States since the start of USFY 1980 which could conceivably have impinged upon the interests of American producers of the same, similar, or competing products.

Only a few of these loans were deemed sufficiently harmful to the interests of domestic producers to require our opposition. The United States has opposed 19 MDB loan or equity proposals for 16 investments since the start of FY 1980 which might have harmed American producers. However, the potential negative impact upon our producers was the deciding factor for only the following five investments:

China - Third Industrial Credit Project
Brazil - Agricultural Extension II Project
Malaysia - Second Western Johor Agricultural Development
Argentina - SIDERCA Seamless Steel Tube Project
China - Fourth Industrial Credit Project

The Garn Amendment regarding copper applied to the following three loans:

Zaire - GECAMINES Rehabilitation
Chile - Multisector Global Credit Program III
Zaire - GECAMINES Rehabilitation

The remaining eleven investments were opposed because they did not meet our economic, financial, and developmental criteria.

Although all of these projects were subsequently approved, we believe that the vigorous opposition expressed in the MDB Executive Boards by our representatives will influence the selection of future projects.

Previously most of MDB lending was for specific projects. However, the introduction of our international debt strategy means that there is now an increased emphasis on policy based lending, primarily in the World Bank. The focus of this type of lending is on the removal of economic distortions - such as subsidies and excessive levels of protection - in borrowing countries. Such economic reforms are vital for promoting the open, market-oriented, competitive, private sector world economy needed by a prosperous America.

U.S. Negative Votes and Abstentions in the MDBs for Potential U.S. Economic Effects Reasons USFYs 1980-1987

Institution	Date	Country	Amount ($ millions)	Project	Vote	Reason
FY 1980/81/82						
None						
FY 1983						
IBRD	May 1983	Egypt	165.3	El Dikheila Reinforcing Bar	Abstain	Not a developmental priority
IFC	May 1983	Egypt	31.2 loan +7.2 equity	El Dikheila Reinforcing Bar	Abstain	Not a developmental priority
FY 1984						
IBRD	Mar. 1984	Zambia	75.0	Copper Industry Rehabilitation	No	Doubtful financial viability
IDB	Nov. 1983	Chile	268.0 (IRC)	CODELCO Copper Mining and processing Expansion	No	Inappropriate financial structure. CODELCO rather than the Government should bear the debt service burden
FY 1985						
IFC	Feb. 1985	Brazil	3.0 equity	COSIGUA Steel Modernization	No	Additional IFC equity investment not necessary, and therefore could displace local private capital
ADB	Jun. 1985	Indonesia	0.4 equity (OC)	Kratama Belindo Steel Fabricating	No	Poor management structure, inefficient import substitution, and no government commitment to divest its (40 percent) interest
FY 1986						
IBRD	Dec. 1985	Mauritania	20.0	SNIM Iron Ore Mining Rehabilitation	Abstain	Potentially premature due to global overcapacity, and unsound sector tax policy

Institution	Date	Country	Amount ($ millions)	Project	Vote	Reason
FY 1986 (cont.)						
IBRD	Mar. 1986	China	75.0	Third Industrial Credit Project	Abstain	Unsustainable textile export trend given bilateral quota agreements
IBRD	Apr. 1986	Brazil	155.0	Agricultural Extension II	Abstain	Obey Amendment (5% decline in soybean oil price)
IBRD	Apr. 1986	Zaire	110.0	GECAMINES copper rehabilitation	No	Garn Amendment regarding copper production
IBRD	Jul. 1986	Malaysia	55.0	Second Western Johor Ag. Dev. (Palm Oil)	No	No institution building role for IBRD
IDA	Mar. 1986	China	25.0	Third Industrial Credit Project	Abstain	Unsustainable textile export trend given bilateral quota agreements
IDB	Nov. 1985	Argentina	40.0 (IRC)	SIDERCA Seamless Steel Tube and Pipe Expansion	Abstain	Doubtful economic and financial viability due to global overcapacity
IDB	Dec. 1985	Chile	130.0 (IRC)	Multisector Global Credit Program III	No	Garn Amendment regarding copper production
ADB	Sept. 1986	Indonesia	90.0	Second Nucleus Estate and Smallholder Palm Oil	No	Doubtful economic and financial viability due to global overcapacity
ADF	Sept. 1986	Pakistan	66.1	Cotton Development	Abstain	Inadequate cotton subsector policy reform
AFDB	Jun. 1986	Zaire	72.6	GECAMINES copper rehabilitation	No	Garn Amendment regarding copper production
FY 1987						
IBRD	Mar. 1987	China	250.0	Fourth Industrial Credit Project	Abstain	Unsustainable textile export trend given bilateral quota agreements
IDA	Mar. 1987	China	50.0	Fourth Industrial Credit Project	Abstain	Unsustainable textile export trend given bilateral quota agreements

Secretary Baker: Trade policy loans per se, like the other types of policy based lending, are relatively new. Nevertheless, World Bank efforts to liberalize trade through its lending program are significant. During this fiscal year so far, the Bank has made four loans to Mexico, Nigeria, Indonesia and Tunisia totaling $1.4 billion.

The loan to Mexico is supporting the reduction of non-tariff barriers, which have historically constituted the heart of the Mexican system of protection, and the simplification and reduced dispersion of tariffs. This loan will also support Mexico accession to the General Agreement on Trade and Tariffs (GATT).

The reforms associated with the loan to Nigeria would, among other things, eliminate trade restrictions and price controls. Specifically, the government agreed to abolish the 30 percent surcharge on goods (except selected luxuries) passing through the second tier market, implement interim revisions in the import duty and excise schedule to reduce the average level and dispersion of tariffs, and carry out a study to determine the revised customs and excise duties.

With regards to the Bank's loan to Tunisia, the government committed itself to reforming the investment code liberalizing investment entirely, except when incentives are requested, and the elimination of price controls.

The last loan approved, Indonesia, focused on steps to shift from non-tariff barriers to tariffs as the primary instrument of import policy, and to promote foreign investment, especially in export activities. This latter loan caused us considerable concern because we did not like the lack of new conditionality in it and the fact there was no explicit strategy for the future, i.e., it was not clear what additional reforms Indonesia was committed to and when. Nevertheless, we expect the on-going dialogue between the Bank and Indonesia to result in more concrete reforms before any new loan is considered.

For the remainder of the year, we expect at least three more Trade Policy loans to be presented to Board for approval. I can assure you that we will be reviewing each loan carefully for the effort to liberalize trade and open the economies to foreign investment.

Secretary Baker: The package of changes or reforms we believe are necessary for the IDB to play a major role in helping promote growth and economic adjustment in the economies of Latin America include:

- -- adoption of appropriate policy conditionality in lending and creation of a program of well-defined, well-targeted policy conditioned fast-disbursing loans;
- -- creation of individual country strategies to guide the Bank's lending program;
- -- restructuring of operating departments to facilitate the implementation of the first two changes; and
- -- changing the majority needed for decisions to 65 percent of voting power to ensure that loans will

address critical obstacles to growth and contain appropriate policy conditionality.

Tentative agreement has been reached on some important elements of the "reformed IDB" package:

-- a lending program in the $20-$25 billion range;

-- paid-in capital at 2.5 percent;

-- up to 25 percent of the lending program devoted to policy conditioned sector lending;

-- strengthened country programming so Bank operations can concentrate in those sectors and projects that would have the greatest impact on economic growth and social progress; and

-- concessional resources concentrated on the poorest countries (Bolivia, El Salvador, Guyana, Haiti, and Honduras).

The operational details on some important issues still have to be resolved. These include:

-- operational definitions and procedures to guide the formulations of country programming strategies;

-- operational definitions and procedures to guide sector lending, tranching of loans and conditionality;

-- reorganization of the Bank's internal structure to facilitate preparation of country programming strategies and sector lending activities; and

-- the general shape of concessional lending through the Fund for Special Operations and the Intermediate Financing Facility.

In principle, there seems to be no significant obstacles to resolving these issues.

This is not the case, however, with the issue of restructuring voting procedures so that representatives of member countries which provide the vast bulk of the Bank's useable resources exercise more authority over loan quality. The United States, Canada, and the Bank's non-regional members in Europe and Asia provide over 95 percent of these useable resources, but have only 46.5 percent of the total voting power. In the IDB loan and policy decisions are made on a majority vote basis.

We have been seeking a change in the voting structure which would require 65 percent of the voting power for decisions. Only with a mechanism such as this can we ensure that a greatly expanded IDB lending program will encompass appropriate policy conditionality and high priority quality loans.

Secretary Baker: The U.S. debt initiative, or "Program for Sustained Growth", has received broad international support from the international financial institutions, the commercial banks, and both creditor and debtor nations, and it is now being implemented through individual debtors' negotiations with the IMF and the World Bank.

The initiative's emphasis on growth has encouraged a sharp shift in economic policies in many debtor countries toward market-oriented reforms. For example:

- Bolivia, Brazil and Argentina have undertaken substantial domestic reform programs to reduce inflation.
- Others, including Argentina, Chile, Ecuador, and Mexico are moving to privatize public enterprises.
- Colombia and Ecuador have taken steps to significantly increase the market-orientation of their economies, by reducing government interference in many markets.
- Argentina, Mexico, and Colombia are moving to liberalize their import regimes, while Ecuador is opening up its investment regime to help encourage foreign investment.
- Argentina and Mexico are implementing tax reforms to improve tax enforcement and broaden the tax base.

The IMF and World Bank have provided strong support for the debtors' efforts through general economic advice, assistance in the development of growth-oriented programs, and enhanced lending. Since October 1985, the IMF has negotiated new standby programs with 8 countries (Argentina, Bolivia, Ecuador, the Ivory Coast, Mexico, Morocco, Nigeria, and the Philippines). New loans under these programs amount to $4.7 billion. In developing these programs, the IMF has placed greater emphasis on market-based reforms as part of comprehensive growth-oriented programs. The recent Mexican standby also includes innovative contingency financing arrangements.

Since the fall of 1985, the World Bank has also accelerated its policy-based lending in response to the debt initiative. It has extended commitments for $2.9 billion in new policy-based loans to 10 of the major debtors (Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, the Ivory Coast, Mexico, Morocco, and Nigeria). Nearly $5 billion in additional policy-based loans for the 15 major debtors are now under discussion. Aggregate World Bank lending commitments to the 15 debtors for both policy-based and project loans increased by nearly 40 percent to $6.1 billion in FY 1986 (July-June).

Looking at overall financial flows, all of the 15 major debtors, except Peru, have had supportive financing, Paris Club, or commercial bank debt relief in the past 18 months. The Paris Club has rescheduled $14.5 billion of outstanding debt. The commercial banks have rescheduled nearly $70 billion of outstanding debt and have agreed in principle to provide nearly $8.3 billion in new money.

Commercial bank financing packages remain the most difficult area in the strengthened debt strategy. Lending by the end of 1986 was clearly inadequate. However, progress is now being made on a backlog of new financing and rescheduling packages.

- Formal signing of the Mexican financing package will begin on March 20.
- Agreements have been reached with Chile on a retiming and repricing arrangement and with Venezuela on a repricing of its prior rescheduling arrangement.
- Rescheduling negotiations with the Philippines are near completion.
- Argentine new money discussions are underway.
- Brazilian discussions will hopefully also move ahead.

These should result in substantial increases in net commercial bank lending in 1987.

Seven major debtors are interested in or have permitted debt/equity swaps. These include Argentina, Brazil, Chile, Ecuador, Mexico, Nigeria, and the Philippines. Such swaps help reduce debt service burdens, and can support new investment and the return of flight capital. Debt conversions in 1986 in four of these countries amounted some $2.5 billion and are likely to increase substantially.

Accomplishing stronger growth and lower debt service ratios will take time, but the process is well underway. The nearly 5 percentage point reduction in interest rates since 1984 will save the major debtors over $14 billion annually.

The current MDB replenishment requests fit well with our debt strategy. As a result of these replenishments the institutions will take steps to improve loan quality, enhance the market orientation of projects, and develop and use country programming strategies to guide project selection. These actions will do much to foster sustainable growth in developing countries, which is the central goal of the "Program for Sustained Growth."

Secretary Baker: No. I believe that OPIC's utility as an instrument of U.S. foreign and international economic policy is, in fact, extensive, particularly with respect to signaling, in a bilateral context, the USG's political and financial support for friendly developing nations. I do not believe that MIGA can be used to fulfill critical foreign policy functions which are unique to OPIC as a USG instrument. Additionally, there is the concern that MIGA would not be able to service the demand for political risk insurance from U.S. investors that would otherwise be met by OPIC.

Secretary Baker: Our decision reflects three basic funding criteria:

- a level adequate to maintain IDA as an effective instrument for the promotion of economic growth and development in low-income countries.
- sensitivity to our overall budgetary situation, and
- realism in light of previous difficulties in obtaining IDA appropriations.

The total U.S. contribution over three years amounts to $2,875 million, or about 23 percent of the total replenishment. Our share in IDA thus has fallen dramatically from the 42 percent of our initial subscription. Our IDA VII contribution was 25 percent.

IDA is the single largest source of concessional lending, and it is a sound, cost-effective vehicle for assisting countries where we have strong humanitarian, strategic and economic interests. For every dollar contributed by the U.S., other donors will provide $3.31.

The chief strength of IDA is market oriented economic policy guidance. IDA VIII places increased emphasis on economic performance and policy adjustment as criteria for for resource allocation. IDA VIII also places more emphasis on Sub-Saharan Africa -- 45 to 50 percent of IDA VIII will go to Africa.

The Administration strongly supports IDA and believes that it is important to the United States. The replenishment can not become effective without the United States. I urge prompt enactment of the necessary legislation to authorize our contribution.

RESPONSES OF M. PETER McPHERSON TO QUESTIONS ASKED BY SENATOR SIMON

A.I.D. REVIEW OF UNFPA

Sen. Simon: In light of AID's own 1985 report finding UNFPA to qualify as a recipient of U.S. international family planning funds, how does AID justify withholding $10 million in 1985 and the entire congressionally approved amount of $25 million in 1986.

Answer: AID reviewed the Chinese family planning program and the UNFPA program in China in 1985. We concluded that the UNFPA programs in China did not themselves include involuntary abortion. However, the one-child-per-family policy in China led to coercive abortion and involuntary sterilization. As a result of concern over the incidence of coercion in the Chinese family planning programs, we withheld $10 million from the planned contribution to UNFPA in 1985.

Legislation passed before the end of FY 1985 prohibited funding an organization or program which "supports or participates in the management of a program of coercive abortion or involuntary sterilization." We determined that UNFPA support for this program constituted "participation in the management of a program of coercive abortion and involuntary sterilization" As a result we did not release the $10 million we had withheld. Consistent with the legislation and with our 1985 determination, we provided no support to UNFPA in 1986. We will not be able to provide funding to

UNFPA unless there are significant changes in the UNFPA program in China or in the Chinese population program itself.

FY 1986 REPROGRAMMED UNFPA FUNDS

Mr. Simon: At the time of the administration decision to withhold the full amount of the 1986 funds for UNFPA, A.I.D. announced that the money would be reprogrammed to other international family planning efforts that met U.S. criteria. Please provide a list of the projects that were funded by the reprogrammed funds and the amounts given to each.

Answer: See the attached list of projects which received reprogrammed UNFPA funds in FY 1986.

AGENCY FOR INTERNATIONAL DEVELOPMENT

Allocation of UNFPA Fallout Funds - FY 1986

Region/ Country	Project No. and Title	Amount ($000)
TOTAL		25,000
AFRICA		
Somalia	0131 Family Health Services	2,772
ASIA/NEAR EAST		
Morocco	0171 Family Planning Support	1,000
ANE Regional	0001 PVO Co-financing	400
	0048 Regional Population Activities	389
LATIN AMERICA/CARIBBEAN		
Dom. Republic	0229 Family Planning Services	1,095
Ecuador	0026 Population/Family Planning	187
El Salvador	0275 Salvadoran Demographic Association	2,000
Guatemala	0288 Expansion of Family Planning	100
Haiti	0189 Population for Development	300
LAC Regional	0616 Intercountry Technology Transfer	800
CENTRAL		
	0955 Family Planning Interntnl Assistnc	950
	3004 Populaton Communications Service	2,000
	3017 Awareness of Population Impact on Development II	200
	3018 Contraceptive Procurement	1,000
	3023 Demographic and Family Health Surveys	1,300
	3027 Integratd Populatn Devlpmnt Planng	600
	3028 Contraceptive Social Marketing	1,500
	3030 Strategies for Improving Service Delivery	680
	3031 FP Training for Paramedic and Auxiliary Personnel	800
	3035 Population Policy Initiatives	683
	3038 FP Logistics Management	550

Region/ Country	Project No. and Title	Amount ($000)
	3039 FP Management Training............	465
	3040 Natural Family Planning...........	1,100
	3043 Expansion/Improvement of Family Planning Services........	2,000
	3044 Contraceptive Research and Development.................	1,250
	3045 Training in Reproductive Health...	879

UNFPA FUNDING IN 1988

Senator Simon: What level of support does A.I.D. intend to provide to UNFPA in the coming year, given assurances from both UNFPA and China that previous US concerns have been fully met?

Answer: In FY 1988 we have requested $25 million for UNFPA. The same amount has been budgeted for UNFPA in FY 1987. However, A.I.D. will be able to consider funding UNFPA in 1987 and subsequent years only if significant changes either in UNFPA's program in the People's Republic of China or in the Chinese population program itself, permit us to conclude that UNFPA does not support or participate in the management of a program of coercive abortion or involuntary sterilization.

If we are unable to resume funding for UNFPA, I expect to redirect the funds reserved for UNFPA in FY 1987 to other voluntary family planning programs in developing countries.

AIDS

Question: In your discussion of the health account, you make no mention of activities targeted toward one of the major health problems of our time, AIDS. What is Agency doing, separately or in conjunction with the World Health Organization, to help other countries comber this disease?

Answer: --A.I.D. recognizes the magnitude and importance of the global AIDS epidemic and has provided strong support to the World Health Organization (WHO) Global Programme from its inception. In FY 1986 A.I.D. was the first donor to the WHO programme providing $2 million ($1 million to the Global Programme and $1 million to the WHO Africa Regional Programme). A.I.D. also has provided technical staff support to help develop the global strategy and plan of action.

--In addition to its financial and technical support for WHO, the Agency is developing other efforts to contribute to the control of AIDS. A.I.D. has developed policy guidance on AIDS and is using existing mechanisms, as well as developing new mechanisms, to provide support to countries to carry out country programs developed in conjunction with the WHO Global Programme.

--In FY 1987 A.I.D. is planning to spend approximately $14 million on AIDS through the WHO programme and A.I.D.'s own activities.

AFRICA BUREAU USE OF INDIGENOUS AND EXPATRIATE PVO'S

Question: Other legislation concerning Africa would require A.I.D. to involve indigenous as well as expatriate PVOs in the actual planning and design as well as implementation of projects and country-wide development strategies. Do you support such requirements?

Answer: PVOs -- both indigenous and expatriate -- play an important role in the Africa Bureau's programs in Sub-Saharan Africa. In FY 1985 and FY 1986, the Africa Bureau provided $58.6 million and $62.7

million, respectively, for PVO activities. These figures do not include the African Famine Supplemental or A.I.D. centrally-funded PVO activities in Africa.

Seven major PVO "umbrella" projects, which provide resources for both indigenous and expatriate PVO projects, will be operating in FY 1987. These projects fund both indigenous and expatriate PVO projects in both the $50,000 to $1 million range and the $50,000 and below range. A major component of many of these projects is the development and institutional strengthening of local PVOs.

Along with these major PVO efforts, both indigenous and expatriate PVOs currently have a role to play in Mission planning and project implementation. Missions presently consult with and take advantage of the knowledge and insight of in-country PVOs. Mission CDSS and Action Plan documents are developed taking into account the community-level contacts, specific sector expertise and developmental contributions and interests of PVOs. With the development and expansion of the PVO "umbrella" projects, as well as the many other individual opportunities for PVOs across Africa, Mission contact and dialogue with PVOs on sector and country-wide development strategies have been effective modes for increased partnership between Missions and PVOs. Even in the smaller country programs -- such as the Comoros, Congo, Central African Republic and others -- PVOs currently play prominent roles in Mission bilateral programs.

To further facilitate Mission cooperation with PVOs, the Africa Bureau provided a grant to InterAction (the PVO umbrella organization) to do a study of all U.S. PVO projects in Africa. The study, which has been made available to all Missions in Africa, will further assist Mission staff in programming PVO projects by outlining current in-country PVO activities and sector expertise. A.I.D. plans to continue building on the many positive achievements in the partnership between Missions and PVOs. However, it would be inappropriate to impose a uniform mode for consultation in all countries and areas, given the wide variation in A.I.D. programs, PVO presence and PVO capabilities and focus around the world.

NORTHERN IRELAND - USE OF FY 88 FUNDS

Question:	I note that your testimony makes no mention of assistance for Ireland and Northern Ireland. How do you propose to use the $35 million in ESF requested? What evidence is there that last year's $35 million in ESF to Ireland contributed to the purposes of the International Fund for Ireland and Northern Ireland?
Mr. McPherson:	To date, no funds have been released to the Fund for Northern Ireland and Ireland. The Fund has been established and we have recently transmitted to the White House documentation attesting that the Fund is a legal functioning entity and that statutory requirments have been satisfied through the Fund's established operational procedures. We expect that the President will sign the certification soon and transmit it to Congress so that the initial $50 million can be released as well as the $35 million appropriated for FY 1987.

We are impressed by the organizational structure of the Fund, the dedication of the Fund's Board of Directors and Executive Staff, and the more than one thousand proposals already in hand and undergoing preliminary review. Thus, we expect to see some projects approved soon. The $35 million requested for FY 1988 will enable the Fund to continue its endeavors. Of course, before funds are disbursed in FY 1988, the President will have to again certify to Congress that that the Fund is in compliance with statutory requirements.

RESPONSES OF M. PETER McPHERSON TO QUESTIONS ASKED BY SENATOR HELMS

FUNDING FOR WEST BANK/GAZA PROJECTS

Sen. Helms: The PLO influence is strongly felt on campuses in the so-called "West Bank" and Gaza, and is often manifested in violent demonstrations. On which campuses is the PLO influence the strongest? Should the U.S. provide any financial assistance to these universities?

Answer: The U.S. does not provide direct financial assistance to universities in the occupied territories. U.S. financial assistance to the West Bank and Gaza is carried out by six American and one indigenous Private Voluntary Organizations who develop project proposals which are subject to approval by AID/Washington and State Department officials. Given Israel's role in administering the occupied territories, we remain in close contact with Israeli authorities concerning our assistance program.

It would be extremely difficult to measure PLO influence on university campuses in the occupied territories. However, it is worth noting that Israeli authorities are active in preventing organizations considered illegal, such as the PLO, from operating in the West Bank and Gaza.

Sen. Helms: AID's Congressional Presentation indicates that $12 million is scheduled to be spent in FY 1988 on projects in the West Bank and Gaza. How does AID assure that these funds do not go to support PLO activities?

Answer: Our projects are highly visible as American-funded efforts, administered by U.S. and local private voluntary organizations. They are directed at improving economic and social conditions in the occupied territories. U.S. officials review all project proposals and monitor their implementation by these private agencies. In addition, given Israel's role in administering the occupied territories, we remain in close contact with Israeli authorities concerning our assistance program.

Sen Helms: According to Mohammed Nasser, formerly head of the Hebron Arab Village Leagues, 95% of the AID funds eventually makes its way to "anti-peace" and extremist elements in Judea and Samaria. Do you agree with Mr. Nasser? If not, what percentage of our funds do you estimate makes its way to these "elements"?

Answer: We do not believe that any U.S. assistance to the West Bank and Gaza falls into the hands of extremist elements. U.S. assistance is designed to further the economic and social development of the occupied territories, itself a process that strengthens moderate elements. We also remain in close contact with Israel concerning development activities.

Sen. Helms: Israel is prohibited from spending its foreign assistance in the so-called "West Bank" and Gaza. However, in FY 88, Jordan will use $7 million of its ESF assistance in the "West Bank" and Gaza. Do you agree with this policy? If Jordan can use U.S. assistance in these territories while Israel cannot, doesn't this indicate that the U.S. recognizes Jordanian claims of sovereignty over this territory as superior to Israel's?

Answer: U.S. assistance to the West Bank and Gaza, whether through Private Voluntary Organizations or through Jordan, is provided in an effort to improve the quality of Palestinian life in the occupied territories. Jordan has maintained political and economic links with the West Bank over the years and, thus, has a role in the area. Jordan's expanded efforts can help foster an atmosphere of communications and cooperation between Jordanians and Palestinians conducive to progress in the peace process. There is no relationship between financial assistance and the issue of sovereignty, which we believe should be decided through direct negotiations between Israel and her neighbors.

WEST BANK AND GAZA PROGRAM/AMIDEAST: FACULTY TRAINING

Mr. Helms: Please provide me with the names of the 172 faculty members who received advanced degrees through AMIDEAST, and the names of the 119 faculty members currently studying in the U.S. through this program?

Answer: The names of the faculty development participants are provided in the attached lists. These reflect program status as of September 30, 1986. The reports from which the lists were drawn show only last names for those who have completed their programs; full names are provided for current students.

Faculty Who Have Completed Advanced Degrees

Institution	Degree	Faculty Participants	
ACMP	MLS	Sharabati	Tahhan
	MS	Shehadeh	Jaouni
		Barghuthy	El Younis
		Ayed	
	MSN	Abulnour	Kelani
		Sader	Shahin
		Aghebekian	Faraj
		Abu Hamam	Suleiman
		Khatib Tamimi	Zahra
		Arafat	
	PHD	Bitar	
An Najah	DED	Masri	
	MA	Abu Shmais	Baidass
		Al Dwaik	
	MBA	Koni	
	MED	Shaheen	Barq
	MLS	Jaber	
	MS	Abu Baker	Bleibleh
		Haddad	Al Kukhun
		Abdul Hadi	Baba
		Abu Shanab	Abu Eisheh
		Bitar	El Mezaini
		Shahin	Abu Thmidi
		Mustafa	Al Odeh
		Abu Kaff	Majjad
		Issa	Ruzieh
		Barakat	Qamhiyeh
		Al Jaber	An Najah
	PHD	Tubaileh	Al Nuri
		Al Subu	Abu Nejmeh
		Jabr	Al Qadi
		Salah	Alayan
		Darweesh	Haddad
		Touchie	Masri
		Salih	Salih
		Shahwan	
Bethlehem	MA	Hussain	Zoughby
		Abu Sway	
	MLS	Hazboun	
	MS	Kanan	El Yousef
		Hazboun	Matar
		Khalil	Abdulnour
		Hazou	
	PHD	Sfeir	Fasheh
		Sanber	Musleh
		Manuel	Zurub
		Rishmawi	Khalil
		Akel	
	Dndr*	Al Mallah	
	*Post-doctoral research		
Birzeit	DED	Hashweh	Nasru
		Shakshir	Libdeh
		Fasheh	
	MA	Darwish	Salem
		Zaghah	Shamshoun
		Batarseh	Feidi
		Al Ahmed	Hammad
		Massad	Baramki

Institution	Degree	Faculty Participants	
		Yahya	Hashweh
		Masad	Ziadeh
	MBA	Salameh	Azar
		Abu Isneineh	
	MLS	Rumman	Al Hawamdeh
	MS	Habash	Franji
		Rizkallah	Kuttab
		Quffa	Bakir
		Salameh	Serna
		Dabeet	Kuttab
		El Sharif	Touqan
		Hashlamon	Zimmo
		Araj	Abdo
		Allan	Abu Al Rub
		Abu Libdeh	Shawabkeh
		Playfil	Jisrawi
		Salamin	
	MSW	Abu Hilal	
	PHD	Abdul Khaliq	Abboushi
		Sabri	Qamhiyeh
		Yahya	Atalla
		Assaf	Salem
		Abu Libdeh	Abdeljaber
		Abu Ghazaleh	Atari
		Dwaik	Al Aboudi
		Harb	Awartani
		Miari	
CST	MS	Abu Asab	Saffarini
		Al Ghoul	Najdi
		Muhammad	Koury
		Nasser Eddin	
	PHD	Odeh	Awartani
		Salah	Hasan Ali
Gaza Islamic			
	MA	Alian	
HTEC	MS	Amr	Dudeen
		Abu Rayyan	Barbarawi
		Tamimi	Al Sayyed Ahmad
		Talahmeh	Abu Khalaf
		El Masri	Tahboub
Higher Council			
	MA	Abu Dahou	

Faculty Members Currently Studying in the U.S.

Institution	Faculty Participants	
ACMP	Abdelnour, Samar V	Abu Elian, Halimeh B.
	Ayed, Naela	Aghabekian, Varsen
	Manasra, Najah Mahmoud	Merizian, Amal K.
	Mustafa, Khader	Ramadi, Nadia A.
	Obaid, Najwa J.	Sayej, Sumaya Y.
	Shahin, Mohammad	Shawar, Ribhi M.
An Najah	Abu Eisheh, Sameer	Abu Kaff, Taha M.
	Abu Qaoud, Hasan	Awartani, Nihaya
	Barakat, Ali	Senan, Siad Badawi
	Alawi, Nabil M.	Assaf, Abed M.
	Baba, Mutasim F.	Al Dwaik, Aziz Salem
	Ghazal, Mohammad Assam	Habayeb, Ali
	Herzallah, Rukayyah	Habash, Hava Tahsin

Institution	Faculty Participants	
	Haddad, Amin M.	Hijjeh, Kamal
	Hasan, Mahmoud	Mahmoud, Sameer
	Muhanna, Ahmad S.	Mizyed, Nuaman R.
	Abo Omar, Jamal	Ruzieh, Subhi N.
	Al Shunnar, Ibrahim I.	Tamim, Najeh S.
	Touqan, Abdel Razzaq	Shaheen, Khawla
	Al Shakhshir, Samar A.	Thaher, Muna
	Yassin, Salaheddin A.	
Bethlehem	Abdel Nour, Karim E.	Al Balboul, Sami A.
	Iraki, Naim M.	Khamis, Vivian E.
	Kharroub, Jrasmus J.	Lama, Violet B.
	Musleh, Norma George	Najjar, Hazem Y.
	Qumsiyeh, Maher B.	Shomaly, Sawsan
	Shomaly, Walid Anton	
Birzeit	Abdallah, Shukri G.	Abu Sada, Jamil M.
	Abu Shamsieh, Eisa	Araj, Simon N.
	Assaf, Azim	Bargouti, Husain J.
	Abu Libdeh, Hasan	Barghouthi, Sameer A.
	Barakat, Munzer	Dabeet, Elias
	Deib, Deib Ali	Feidy Bashear, Lilian
	Jisrawi, Najeh M.	Khaleefeh, Firyal B.
	Kittaneh, Omar I.	Labban, Abdul Karim S.
	Malki, Riad N.	Masad, Fateen
	Masalha, Shafik	Nijim, Monther
	Abd Rabbo, Mohammed Z.	Rabadi, Suleiman B.
	Salamin, Yousef I.	Shawabkeh, Abdel Aziz
	Shibly, Hassan A.	Yousef, Hassan A. R.
CST	Abdul Wahab, Musa	Abu Asab, Mones S.
	Abu Raqabah, Atieh H.	Abu Samreh, Mohammad M.
	Ali, Adnan R.	Jaber, Ali Moussa
	Al Kaimari, Bassem	Kamal, Sufian
	Al Karmi, Anan	Kayali, Ibrahim Hasan
	Khamis, Mustafa I.	Khoury, Suheil
	Leghrouz, Amin A.	Malhi, Nabil B.
	Mughrabi, Tahsin	Najdi, Samir
	Nouh, Jamal H.	Saffarini, Daad
Gaza Islamic	Abdel Latif, Monzir	Abdul Munim, Abdullah
	Abu Shahla, Abdel N.	El Atrash, Mohammed S.
	Al Attar, Jalal	Fadda, Jabr
	Farahat, Sameer I. K.	El Helou, Mohamme
	El Samhouri, Mohammad	El Tayyan, Ahmad
HTEC	Abu Isneineh, Ribhi A.	Abu Rayyan, Sadi M
	Al Sayyed, Basil T.	Abu Shousheh, Osama N.
	El Hour, Nayef	Karaki, Mahir A.-H.
	Murab, Ahmad I.	Al Saheb, Mahmoud Hasan
	Salhab, Sammour K. H.	Zahdeh, Akram R.
	Zalloum, Mazen	Al Zaro, Abdelqader
Non-University		
	Sabboubeh, Mohammed	

WEST BANK/GAZA - PROJECT ASSISTANCE, FY 80-87

Mr. Helms: Please list all "West Bank" and Gaza projects along with the amounts of US assistance given to each in each FY 80-87 through:

ACDI
AMIDEAST
ANERA
SCF
CRS
HLCMI
IMEPD
IESC
OCDC
SCHC
Project Development and Support

Answer: The attached table provides the information requested for FY 1980 through FY 1986. FY 1987 amounts have not yet been finally determined, but current planning levels are as follows:

Grantee/Project	FY 87
ACDI Coop. Dev. Project	870,000
AMIDEAST Human Resources III	1,965,000
ANERA Dev. Assistance	1,000,000
CRS Rural Dev. III	700,000
SCF Rural Dev. III	1,500,000
SCF Rev. Loan Fund	540,000
SCHC Special Ed.	100,000
Private Enterprise	1,500,000
Project Dev. and Support	185,000
Small Project Fund	140,000
Total	$8,500,000

West Bank/Gaza Development Program
Obligations FY 80 - 86 ($000)

Grantee/Project		FY-80	FY-81	FY-82	FY-83	FY-84	FY-85	FY-86
ACDI	Coop. Dev. Proj.							697
AMIDEAST								
	Human Resources I	1,091	1,515			348		
	Human Resources II			2,203	2,990	3,603	3,800	2,700
ANERA								
	Dev. Assistance	1,509	140	173	544	417	1,050	3,510
SCF								
	Rural Com. Dev. I	400						
	Rural Com. Dev. II		801	2,284	2,170	675	503	
	Rural Com. Dev. III					2,000	1,324	5,194
	Revolving Loan Fund							448
CRS								
	Rural Dev. II			573				
	Rural Dev. III						905	876
	Health Education			552	530			
	Life-Cycle Health Ed.						524	250
	Salesian Tech. School						354	
	Handicapped Services					391	496	
HLCMI								
	Mt. David Hosp. Equip.						2,377	
	WB Pre-School Ed.		44		266			
	Gaza Pre-School Ed.			215			360	
IMEPD	Health Survey					372		
IESC	Enterprise TA							235
OCDC	Coops Study						40	
SCHC	Special Education					681	409	
Project Dev. and Support								40
TOTALS		3,000	2,500	6,000	6,500	8,487	12,141	13,950

AVAILABILITY OF CONTRACEPTIVE METHODS

Mr. Helms: Would you provide for the record a table showing: (1) each country in which we are financing population control programs, (2) how much is spent on each form of contraceptive in each country, as well as on sterilization, and (3) the predominant religion in that country. Additionally, please provide for the record a list of any countries which have requested an end to U.S.-financed population programs and the reasons given for the request. How soon are such programs terminated once a request is made?

Answer: Attached is an analysis of the availability of methods in countries receiving A.I.D. support and the major religions of those countries. A.I.D. does not have records or information on specific expenditures per method.

We are unaware of any government request for termination of U.S. sponsored family planning assistance.

A.I.D. Support for Family Planning[1]
by Country, Availability and AID Support
for Family Planning Methods[2], and Major Religions[3]

Country	Contraceptive Methods condoms	 IUDs	 orals	 ster	 NFP	 vag tb	Major Religions
Anguilla							not avail.
available?	x	x	x	x	x	x	
AID support:							
product	x		x				
services	x		x				
Antigua							Prot.
available?	x	x	x	x	x	x	
AID support:							
product	x	x	x				
services	x	x	x				
Argentina							Rom.Cath.
available?	x	x	x	x	x	x	
AID support:							
product		x	x				
services		x	x		x		
Aruba							Rom.Cath. Prot.
available?	x	x	x	x	x	x	
AID support:							
product	x	x					
services	x	x					

Country	Contraceptive Methods						Major Religions
	condoms	IUDs	orals	ster	NFP	vag tb	
Bahamas							Prot.
available?	x	x	x	x	x	x	Rom.Cath.
AID support:							
product	x	x	x				
services	x	x	x				
Bangladesh							Muslim
available?	x	x	x	x	x	x	Hindu
AID support:							
product	x	x	x				
services	x	x	x	x	x		
Barbados							Prot.
available?	x	x	x	x	x	x	indig.rel.
AID support:							Rom.Cath.
product	x	x	x			x	
services	x	x	x		x	x	
Belize							Rom.Cath.
available?	x	x	x	x	x	x	Prot.
AID support:							
product	x	x	x				
services	x	x	x				
Benin							indig.rel.
available?					x		Muslim
AID support:							Rom.Cath.
product							
services					x		
Bolivia							Rom.Cath.
available?	x	x	x	x	x	x	Prot.
AID support:							
product	x	x	x			x	
services	x	x	x	x	x	x	
Botswana							indig.rel.
available?	x	x	x	x			Christian
AID support:							
product	x	x	x				
services							
Brazil							Rom.Cath.
available?	x	x	x	x	x	x	
AID support:							
product[4]	x	x	x				
services	x	x	x	x	x		
Burkina Faso							indig.rel.
available?	x	x	x	x	x	x	Muslim
AID support:							Rom.Cath.
product	x	x	x			x	
services	x	x	x	x	x	x	
Burundi							Rom.Cath.
available?	x	x	x	x	x		indig.rel.
AID support:							Prot.
product	x	x	x				
services					x		

Country	Contraceptive Methods condoms	IUDs	orals	ster	NFP	vag tb	Major Religions
Cameroon							indig.rel.
available?	x	x	x	x	x		Rom.Cath.
AID support:							Muslim
product	x	x	x				Prot.
services	x	x	x	x	x		
Cen.Afr.Rep.							Prot.
available?					x		Rom.Cath.
AID support:							indig.rel.
product							Muslim
services					x		
Chile							Rom.Cath.
available?	x	x	x	x	x	x	Prot.
AID support:							
product	x	x	x				
services	x	x	x	x			
Colombia							Rom.Cath.
available?	x	x	x	x	x	x	
AID support:							
product		x	x				
services		x	x	x	x		
Comoros Is.							Muslim
available?				x			Rom.Cath.
AID support:							
product							
services				x			
Congo							indig.rel.
available?					x		Rom.Cath.
AID support:							Prot.
product							
services					x		
Costa Rica							Rom.Cath.
available?	x	x	x	x	x	x	
AID support:							
product	x	x	x				
services	x	x	x		x		
Curacao							not avail.
available?	x	x	x	x	x	x	
AID support:							
product	x	x					
services	x	x					
Dominica							Rom.Cath.
available?	x	x	x	x	x	x	Prot.
AID support:							
product	x						
services	x				x		
Dom.Repub.							Rom.Cath.
available?	x	x	x	x	x	x	
AID support:							
product	x	x	x				
services	x	x	x	x	x		

Country	condoms	IUDs	orals	ster	NFP	vag tb	Major Religions
	Contraceptive Methods						
Ecuador							Rom.Cath.
available?	x	x	x	x	x	x	
AID support:							
product	x	x	x			x	
services	x	x	x	x	x	x	
Egypt							Muslim
available?	x	x	x	x	x	x	Copt.Chstn
AID support:							
product	x	x	x			x	
services	x	x	x	x	x	x	
El Salvador							Rom.Cath.
available?	x	x	x	x	x	x	Prot.
AID support:							
product	x	x	x			x	
services	x	x	x	x	x	x	
Fiji							Prot.
available?	x	x	x	x	x	x	Hindu
AID support:							Muslim
product							
services					x		
Gambia							Muslim
available?	x	x	x				Christian
AID support:							
product	x	x	x				
services	x	x	x				
Ghana							Christian
available?	x	x	x	x	x	x	indig.rel.
AID support:							Muslim
product	x		x			x	
services	x		x	x	x	x	
Grenada							Rom.Cath.
available?	x	x	x	x	x	x	Prot.
AID support:							
product	x		x				
services	x		x				
Guatemala							Rom.Cath.
available?	x	x	x	x	x	x	Prot.
AID support:							indig.rel.
product	x	x	x			x	
services	x	x	x	x	x	x	
Haiti							Rom.Cath.
available?	x	x	x	x	x	x	indig.rel.
AID support:							Prot.
product	x		x				
services	x		x	x	x		
Honduras							Rom.Cath.
available?	x	x	x	x	x	x	Prot.
AID support:							
product	x	x	x			x	
services	x	x	x	x	x	x	

Country	Contraceptive Methods condoms	IUDs	orals	ster	NFP	vag tb	Major Religions
Hong Kong							Buddhist
available?	x	x	x	x	x	x	Rom.Cath.
AID support:							Prot.
product							Muslim
services					x		
India							Hindu
available?	x	x	x	x	x	x	Muslim
AID support:							Rom.Cath.
product		x					Prot.
services		x		x	x		
Indonesia							Muslim
available?	x	x	x	x	x	x	Prot.
AID support:							Rom.Cath.
product		x	x				
services	x	x	x	x	x		
Ivory Coast							indig.rel.
available?	x	x	x	x	x	x	Muslim
AID support:							Rom.Cath.
product	x	x	x			x	Prot.
services	x	x	x	x	x	x	
Jamaica							Prot.
available?	x	x	x	x	x	x	Rom.Cath.
AID support:							
product	x	x	x				
services	x	x	x	x	x		
Jordan							Muslim
available?	x	x	x	x	x	x	Christian
AID support:							
product							
services				x	x		
Kenya							Prot.
available?	x	x	x	x	x	x	Rom.Cath.
AID support:							indig.rel.
product	x					x	Muslim
services	x			x		x	
Korea							Buddhist
available?	x	x	x	x		x	Prot.
AID support:							Confucian
product							indig.rel.
services				x			
Lebanon							Muslim
available?	x	x	x	x	x	x	Rom.Cath.
AID support:							
product							
services					x		
Lesotho							Rom.Cath.
available?	x	x	x	x	x	x	Prot.
AID support:							indig.rel.
product			x				
services				x			

Country	Contraceptive Methods						Major Religions
	condoms	IUDs	orals	ster	NFP	vag tb	
Liberia							Muslim Prot. Rom.Cath. indig.rel.
available?			x	x	x		
AID support:							
product			x				
services			x	x	x		
Madagascar							indig.rel. Rom.Cath. Prot. Muslim
available?	x	x	x	x	x		
AID support:							
product	x	x	x				
services				x	x		
Malawi							Prot. Rom.Cath. Muslim indig.rel.
available?	x	x	x		x	x	
AID support:							
product	x	x	x			x	
services			x		x	x	
Malaysia							Muslim Buddhist Hindu
available?	x	x	x	x	x	x	
AID support:							
product			x				
services			x	x	x		
Mali							Muslim indig.rel.
available?	x	x	x	x	x		
AID support:							
product	x	x	x				
services	x	x	x	x	x		
Mauritius							Hindu Rom.Cath. Muslim
available?	x	x	x	x	x		
AID support:							
product	x	x	x	x			
services	x		x	x	x		
Mexico							Rom.Cath. Prot.
available?	x	x	x	x	x	x	
AID support:							
product	x	x	x				
services	x	x	x	x	x		
Montserrat							not avail.
available?	x	x	x	x	x	x	
AID support:							
product	x						
services	x						
Morocco							Muslim
available?	x	x	x	x	x	x	
AID support:							
product	x	x	x				
services	x	x	x	x	x		
Mozambique							Muslim
available?	x	x	x				
AID support:							
product	x	x					
services	x	x					

Country	Contraceptive Methods						Major Religions
	condoms	IUDs	orals	ster	NFP	vag tb	
Nepal							Hindu
available?	x	x	x	x	x	x	Buddhist
AID support:							
product	x		x			x	
services	x	x	x	x	x	x	
Nigeria							Muslim
available?	x	x	x	x	x	x	Christian
AID support:							indig.rel.
product	x	x	x			x	
services	x	x	x	x	x	x	
Pakistan							Muslim
available?	x	x	x	x	x	x	
AID support:							
product	x	x	x				
services	x	x	x	x	x		
Panama							Rom.Cath.
available?	x	x	x	x			Prot.
AID support:							
product	x	x	x				
services	x	x	x	x			
Paraguay							Rom.Cath.
available?		x	x	x	x		
AID support:							
product							
services				x	x		
Peru							Rom.Cath.
available?	x	x	x	x	x	x	
AID support:							
product	x	x	x			x	
services	x	x	x	x	x	x	
Philippines							Rom.Cath.m
available?	x	x	x	x	x	x	Prot.
AID support:							
product	x		x				
services	x	x	x	x	x		
Rwanda							Rom.Cath.
available?	x	x	x		x		indig.rel.
AID support:							Prot.
product			x				
services			x		x		
Sao Tome							Rom.Cath.
available?	x		x			x	
AID support:							
product	x		x			x	
services	x		x			x	
Senegal							Muslimi
available?	x		x	x	x		Rom.Cath.
AID support:							
product	x		x				
services	x		x	x	x		

Country	Contraceptive Methods						Major Religions
	condoms	IUDs	orals	ster	NFP	vag tb	
Sierra Leone							Muslim
available?	x	x	x	x	x		indig.rel.
AID support:							Christian
product	x	x	x				
services	x	x	x	x	x		
Solomon Is.							Prot.
available?					x		Rom.Cath.
AID support:							
product							
services					x		
Somalia							Muslim
available?	x	x		x	x	x	
AID support:							
product	x	x	x			x	
services	x	x	x	x	x	x	
Sri Lanka							Buddhist
available?	x	x	x	x	x	x	Hindu
AID support:							Rom.Cath.
product			x				Prot.
services	x	x	x	x	x		Muslim
St. Kitts							Prot.
available?	x	x	x	x	x	x	Rom.Cath.
AID support:							
product		x	x				
services		x	x		x		
St. Lucia							Rom.Cath.
available?	x	x	x	x	x	x	Prot.
AID support:							
product	x	x	x				
services	x	x	x	x	x		
St. Vincent							Prot.
available?	x	x	x	x	x	x	Rom.Cath.
AID support:							
product		x					
services		x					
Sudan							Muslim
available?	x	x	x	x	x		indig.rel.
AID support:							Rom.Cath.
product	x	x	x				Copt.Chstn
services	x	x	x	x	x		
Swaziland							Christian
available?	x	x	x		x		indig.rel.
AID support:							
product	x	x	x				
services	x	x	x		x		
Thailand							Buddhist
available?	x	x	x	x	x	x	Muslim
AID support:							
product	x	x	x				
services	x	x	x	x	x		

Country	Contraceptive Methods						Major
	condoms	IUDs	orals	ster	NFP	vag tb	Religions
Togo							indig.rel.
available?	x	x	x		x		Rom.Cath.
AID support:							Muslim
product	x	x	x				Prot.
services	x	x	x		x		
Trinidad							Rom.Cath.
available?	x	x	x	x	x	x	Hindu
AID support:							Prot.
product	x		x				Muslim
services	x		x	x	x		
Tunisia							Muslim
available?	x	x	x	x	x	x	
AID support:							
product	x		x			x	
services	x	x	x	x	x	x	
Turkey							Muslim
available?	x	x	x	x	x	x	
AID support:							
product	x		x				
services	x		x	x	x		
Uganda							Rom.Cath.
available?	x	x	x	x	x		Prot.
AID support:							indig.rel.
product	x	x	x				Muslim
services	x	x	x	x	x		
Uruguay							Rom.Cath.
available?	x	x	x	x	x	x	
AID support:							
product	x	x	x				
services	x	x	x				
Yemen A.R.							Muslim
available?	x	x	x	x		x	
AID support:							
product	x	x	x			x	
services	x	x	x	x		x	
Zaire							Rom.Cath.
available?	x	x	x	x	x	x	Prot.
AID support:							indig.rel.
product		x				x	Muslim
services		x		x	x	x	
Zambia							Rom.Cath.
available?	x	x	x		x		Prot.
AID support:							indig.rel.
product	x	x	x				
services	x	x	x		x		
Zimbabwe							indig.rel.
available?	x	x	x	x	x	x	Rom.Cath.
AID support:							Prot.
product	x	x	x	x			
services	x	x	x		x		

Notes: 1 A.I.D. Support includes both bilateral assistance to governments and support provided through centrally-funded programs to the local institutions of developing countries.

2 "Availability" includes all family planning methods that are eligible for support from A.I.D. Family planning methods not funded by A.I.D. are not shown in these tables.
Estimates of "Availability" were derived from: (1) Population and Family Planning Programs. Population Council. 12th Edition, 1985. Tables 15, 17 & 18; (2) the Population Project Database and the Contraceptive Commodity Management System of A.I.D.'s Office of Population; and (3) information provided by AID Regional Bureau population officers.
Data on A.I.D. support are based on sources (2) and (3) above.
Note that a blank indicates ONLY that no information on availability of a method was found. The method may or may not be available in the country.

3 "Major Religions" are those reported in: (1) The World Factbook, 1986. CIA. (CR WF 86-001) June 1986; (2) Africa South of the Sahara, 1986. 15th Edition. Europa Publications Ltd.; (3) The Far East and Australasia 1987. 18th Edition. Europa Publications Ltd.; (4) The Europa Yearbook 1986 - A World Survey. Volumes 1 and 2. Europa Publications Ltd.
Religions are listed in order of their members as a percentage of total population, beginning with the most dominant faith. Religions that account for less than 5 percent of the population are not considered "major" unless the Factbook characterizes them as "active".

Key to non-evident religious abbreviations:
Copt.Chstn - Coptic Christian
indig.rel. - indigenous religions
Christian - information lacking on the distribution of believers between Christian denominations
not avail. - information on religious practice was not available in the sources cited above.

4 Commodities are provided exclusively for research programs.

WEST BANK/GAZA - FUNDING FOR SAVE THE CHILDREN

Mr. Helms: How much will be provided through Save the Children in FY 1987?

Answer: We anticipate providing approximately $1.5 million through Save the Children in FY 1987. This amount could change, however, depending on other funding requirements.

WEST BANK AND GAZA PROGRAM/SAVE THE CHILDREN

Mr. Helms: According to your Congressional Presentation, Save the Children has funded "67 community water systems". Please list the 67 communities.

Answer: Save the Children has funded a total of 64, not 67, community water systems in the West Bank and Gaza. The communities served are listed below.

Community/Gaza Strip

Abasan El-Kabira
Bani Suheila
Beit Hanoun
Beit Layiha
Deir El-Balah
El-Mashru'
Gaza City
Ikhza'a
Jabalia
Khan Younis
Nazla
Qarara
Rafah Municipality
Rafah Beach
Tel-Es-Sultan, Rafah
Zawaida

Total Number of Communities in Gaza Strip: 16

Community/West Bank

Abu Dis
Abu Qash
Abu Shkeidem
Arrabeh
Attil
Azaria
Azzoun/'Atmeh
Bani Naim
Barta'a
Battir
Beit Fajjar
Beit Iksa
Beit Surik
Bethlehem/Beit Jala/Beit Sahur
Biddo
Burgin
Deir Ammar
Deir El-Ghusson
Deir Nidham
Ein Beida
El-Jeeb
Hableh
Husan
Jalameh
Jammala

Janniya
Jenin
Jerusalem
Kawbar
Kufeiret
Mazra'a El-Qibliya
Mirkeh
Mukhmas
Nuweimeh
Qatanna
Qubeibeh
Ras Karkar
Sa'ra
Salfit
Shamsiya Tahta
Sharafeh
Shufah
Shuyukh/Si'ir
Wadi Fukin
Ya'abad
Yasouf
Zababdeh
Zebden

Total Number of Communities in West Bank: 48

Mr. Helms: Where are the "major regional water systems" and "fruit and vegetable market" referred to in the presentation?

Answer: Save the Children has funded two major projects which have improved the regional water systems of the Bethlehem and Ramallah water authorities in the West Bank. Save the Children also assisted the Bethlehem municipality to complete construction of a wholesale/retail fruit and vegetable market.

Mr. Helms: Please list the location of the 47 "farm to market roads" constructed by Save the Children.

Answer: As listed below, a total of 20 communities in the Gaza Strip and 27 in the West Bank have been served by Save the Children agricultural road projects.

Community/Gaza Strip

Abasan Es-Saghira
Abasan Kabira
Abu Dagga

Abu Hooley
Abu Jaber
Bani Suheila
Beit Hanoun
Beit Lahiya
Deir El-Balah
East Wadi Gaza
El-Birka
Jabalia
Latifa
Musadra
Nuseirat
Qarara
Swedish Camp
Wad Jabalia
Zawaida
Zummo

Community/West Bank

Attil
Bani Naim
Beit Rima
Beit Ummar
Beit Sahur
Beit Surik
Dar Mabarak
Dar Salah
Deir Dibwan
Deir El-Ghusson
Deir Ghassaneh
Halhoul
Kufr Malek
Marah Rabah
Nahhalin
Numan
Nunqur
Qabatia
Saabiyeh
Salfit
Sur Baher
Tarqumia
Wad Ali
Wad Amayer
Wad Eziz
Wad Naar
Wadi Fuqin

Mr. Helms: According to the Presentation, Save the Children established a revolving loan program. In what communities is this program located?

Answer: To date, loans have been disbursed in the following communities.

Community/Gaza Strip

Amer
Shaja'Eiyeh
Tuffah
Zeitoun

Community/West Bank

Bethlehem
Ramallah

WEST BANK/GAZA - LOCATION OF SAVE THE CHILDREN SELF-HELP PROJECTS

Mr. Helms: According to the Presentation, FY 88 funds will be used by Save the Children for self-help projects in agriculture. Where will these projects be located?

Answer: Save the Children has not yet submitted a proposal for FY 1988 funding. We do not know, consequently, the location of possible projects.

WEST BANK/GAZA - ANERA: LAND RECLAMATION AND MECHANIZATION

Mr. Helms: According to your Congressional Presentation, ANERA has assisted 28 cooperatives in land reclamation and mechanization projects. Please list these 28 cooperatives and the communities in which they are located.

Answer: Our reports identify the cooperatives involved in these projects by their location. ANERA supported the following 28 cooperatives in land reclamation and mechanization. Those which serve an area beyond the communities indicated by the cooperative name are so noted.

West Bank:

Al-Jieb

Tulkarem

Tarqumiya (serving Hebron region)

Yasid

Kufr Malik

Ein Yabroud

Assira Qiblia

Yassuf

Nazla Sharqia

Barta'a

Abu El-Asja

Jourt El-Shama'a

Bagar

Nassaria

Beit Erosh al-Foqa/El-Bireh El-Burg

Quizeeba

Beit Nuba

El-Obeidiya

Deir Istiya

Salfit

Nablus (serving Nablus region)

Raboud

Sikka

El-Majd

Beit Erosh

El-Koum

Wadi Foukin

Gaza:

Khan Younis

WEST BANK/GAZA - ANERA: OTHER COOPERATIVE ACTIVITY

Mr. Helms: Similarly, ANERA has funded "another 22 [cooperatives] in such areas as electrification, dairy and food processing, agriculture marketing and irrigation". Please list these 22 cooperatives and the communities in which they are located.

Answer: As in the case of land reclamation and mechanization projects, these cooperatives are identified by location. The following lists the cooperatives and type of projects. Those which provide a regional service are so noted. They are all on the West Bank.

Qalqilia (Region)	Agricultural Marketing
Ramallah (Region)	Poultry
Hebron (Region)	Olive Press
Jericho (Region)	Agricultural Engineers
Jenin (Region)	Agricultural Marketing

Beit Jala (Region)	Olive Press & Soap Factory
Wadi Foukin	Irrigation
Al-Nassariya	Dairy
Sawahreh Sharqia	Dairy
Jenin (Region)	Livestock
Irtas	Irrigation
Nazla Sharqia	Irrigation
Tarqumia (Hebron Region)	Loan Fund
Nablus (Region)	Loan Fund
Tarqumia (Hebron Region)	Tree Nursery
Ein Sinyeh (Ramallah Region)	Olive Oil Canning
Deir Sharaf (Nablus Region)	Olive Oil Canning
Assira Shimaliya	Electrification
Al-Fawar	Electrification
Al-Majd/Sicca	Electrification
Deir Samit	Electrification
Beit Awa	Electrification

WEST BANK/GAZA - ANERA: MUNICIPAL PROJECTS

Mr. Helms: Please provide the locations of the ANERA municipal projects supported by the U.S., including the "wholesale fruit and vegetable market", the "light industrial park", and the "rainwater conservation system."

Answer: The ANERA municipal projects mentioned are the Fruit and Vegetable Market in Halhul, the Light Industry Center in Beit Jala, and the Rainwater Conservation Project in Gaza. One other municipal project has been partially funded and is currently underway - the Khan Younis Municipal Slaughterhouse.

WEST BANK/GAZA - ANERA INFRASTRUCTURE PROJECTS

Mr. Helms: For FY 88, ANERA is scheduled to help municipalities build infrastructure. Please list these communities.

Answer: PVOs submit proposals to AID on an annual basis. We do not yet know what projects ANERA intends to propose for funding next fiscal year.

WEST BANK/GAZA - ANERA COOPERATIVE/CREDIT ACTIVITIES

Mr. Helms: For FY 88, ANERA is scheduled to support cooperative marketing and a pilot credit activity. In which communities will these activities occur, and under which local organizations?

Answer: ANERA will be developing a pilot credit activity for possible AID funding during the next few months. We will not know what organizations and communities will be involved in these projects until ANERA's proposal for FY 1988 funding is received and reviewed.

WEST BANK/GAZA - FUNDING FOR ANERA

Mr. Helms: What is our FY 87 and FY 88 funding for ANERA?

Answer: We hope to provide approximately $1 million to ANERA this fiscal year. As with funding for Save the Children, this is not a firm figure and could change depending on other demands within the overall program. Funding in FY 88 will be determined after ANERA's proposal is received and reviewed by AID.

WEST BANK/GAZA - AMIDEAST: FACULTY TRAINING

Mr. Helms: The Congressional Presentation indicates that this program has funded 172 faculty members' advanced degrees, and has placed another 119 in academic programs in the U.S. Who are these 291 faculty members, where do the 172 now teach, and where are the 119 now studying?

Answer: The faculty members who have completed or are now receiving advanced degree training came from the faculties of seven post-secondary institutions in the West Bank and Gaza. Their selection was based on need to strengthen various departments by increasing the number of faculty members with masters and doctorate level degrees. The largest numbers have been in the following fields: Biology, Business, Chemistry, Computer Science, Economics, Education, Education/Teacher Training, Engineering, Languages/Linguistics, Library Science, Mathematics, Medical Allied Fields, and Physics. One employee from the Council for Higher Education was also included the total. All are under contractual obligation to return to their sponsoring institutions after completing the training. The following distributions are as of September 30, 1986:

Participants who completed their degree programs returned to the following institutions:

Arab College of Medical Professions	19
An Najah University	44
Bethlehem University	21
Birzeit University	65
College of Science & Technology	11
Gaza Islamic University	1
Hebron Technical Engineering College	10
Council for Higher Education	1
TOTAL	172

Faculty members in advanced degree programs were studying at the following U.S. institutions (as of September 30, 1986):

American University	1
Arizona State University	1
Ball State University	1
California Sch. Prof. Psychology	1
California State University/Long Beach	2
Carnegie-Mellon University	1
Catholic University	4
Clarkson University	1
Colorado State University	2
Cornell University	3
Florida State University	1
Illinois Institute of Technology	1
Indiana University/Bloomington	2
Iowa State University	2
Johns Hopkins University	1
Kansas State University	2
Lehigh University	3
Louisiana State University/Baton Rouge	1
Michigan State University	5
Mississippi State University	1
North Carolina A&T State University	1
North Texas State University	1
Northeastern University	3
Ohio University	5
PINY/Brooklyn	2
Penn State/University Park	2
Purdue University/West Lafayette	2
Rutgers University/New Brunswick	3
SUNY/Albany	1
SUNY/Buffalo-Amherst	2
SUNY/Environmental Science & Forestry	1
Southern Illinois University/Carbondale	6
Southern Methodist University	1

Stanford University	4
Syracuse University	3
U.S. International University	1
University of Arizona	2
University of California/Los Angeles	1
University of California/Davis	2
University of Chicago	1
University of Cincinnati	1
University of Colorado/Boulder	2
University of Dayton	1
University of Delaware	1
University of Illinois/Chicago	1
University of Illinois/Urbana	2
University of Maryland/Baltimore	1
University of Michigan/Ann Arbor	4
University of Mississippi	1
University of Missouri/Rolla	1
University of North Carolina/Chapel Hill	1
University of Oklahoma	1
University of Pennsylvania	2
University of Pittsburgh	3
University of South Carolina/Columbia	1
University of Tennessee/Knoxville	1
University of Washington	1
University of Wisconsin/Madison	5
University of Wisconsin/Milwaukee	2
University of Wisconsin/Stout	1
Virginia Polytech University	1
Washington State University	1
Wayne State University	2
Wentworth Institute of Technology	1
Western Michigan University	1
TOTAL	119

WEST BANK/GAZA - AMIDEAST: SCHOLARSHIPS

Mr. Helms: The Presentation indicates that AMIDEAST provides scholarships at "West Bank and Gaza" institutions. Please list these institutions:

Answer: The scholarships provided by AMIDEAST for undergraduates in the West Bank and Gaza are at the following institutions:

Arab College of Medical Professions
An Najah University
Bethlehem University
Birzeit University
Hebron Technical Engineering College

WEST BANK/GAZA - AMIDEAST: ASSISTANCE TO UNIVERSITIES

Mr. Helms: For FY 88, AMIDEAST will "complete its program of direct assistance to universities, and continue training activities." Please indicate which Universities are covered, and explain the training activities.

Answer: The Universities which have been receiving assistance in the form of advanced degree training in the U. S. for faculty members and local undergraduate scholarship funds are:

Arab College of Medical Professions
An Najah University
Bethlehem University
Birzeit University
College of Science and Technology (Abu Dis)
Gaza Islamic University

This faculty development and scholarship assistance is being phased down. Continuing training activities are expected to include support for technical/vocational institutions and short-term programs to meet special manpower skills needs. The details of these continuing activities will not be determined until after review of proposals currently being developed.

WEST BANK/GAZA - FUNDING FOR AMIDEAST

Mr. Helms: Please give the amounts to be provided to AMIDEAST in FY 87 and FY 88.

Answer: The PVOs provide annual proposals to AID for funding, and the requests from AMIDEAST for this fiscal year and next year have not been received. We anticipate that AMIDEAST will need roughly $2 million in FY 1987, but can, of course, make no final decision on an amount until its proposal is received and reviewed.

WEST BANK/GAZA - DIRECT AID ASSISTANCE

Mr. Helms: Please list all communities in the West Bank and Gaza receiving direct assistance from AID since 1975, including all projects funded by this assistance, and the amounts contributed to each.

Answer: No communities in the West Bank and Gaza have received direct assistance from AID since 1975 when the program began. All assistance to communities under this program is channeled through American PVOs who work with the communities in implementing their projects. These are jointly funded activities, with less than fifty percent contributed by AID.

THE JORDAN WEST BANK/GAZA PROGRAM

Mr. Helms: Is it true that the entire amount of the Jordan program devoted to the "West Bank and Gaza" is executed through the "Cities and Villages Development Bank"?

List the specific projects financed since FY 1986 by the CVDB and where such projects are located.

On what specific projects do you intend to use FY 1988 funding, and where are they located?

Answer: The Government of Jordan (GOJ) has assured A.I.D. that the entire A.I.D. contributions in FY 1986 and 1987 to the Jordan West Bank/Gaza Development Program will be channeled through the Cities and Villages Development Bank (CVDB).

Implementation of the Jordan West Bank/Gaza Program has not yet begun, though the GOJ has indicated a division of funds by region and sector for the initial phase of the program. A list of projects finally selected for financing has not yet been prepared.

Decisions on projects to be financed by A.I.D. funding in FY 1988 have not yet been made. These decisions will probably be made in FY 1988.

PRIVATE AND VOLUNTARY ORGANIZATIONS AUTHORIZED TO RECEIVE A.I.D. GRANTS

Mr. Helms: Could you provide a list of all private and voluntary organizations authorized to receive A.I.D. grants as well as the percentage of private financing which each receives (ranked in order of the most private contributions)?

Answer: Attached is a listing of the PVOs authorized to receive A.I.D. grants ranked in order by percentage of the most private contributions. The calculations, based on the 20 percent private resource requirement in A.I.D.'s FY 1987 appropriations legislation, were computed on the most current fiscal data submitted by PVOs through February 28, 1987.

Privateness Support Percentage Report

The following is a list of the Private Support Percentages for registered PVOs in 1985. The listing is divided into four parts:

Part I	PVOs with overseas programs
Part II	PVOs with no overseas programs
Part III	PVOs newly registered and not required to meet the private support requirement for 1985
Part IV	PVOs identified as A.I.D. intermediaries

I. The following is a list of registered PVOs with overseas programs:

PVO NAME	PRIVATE SUPPORT PERCENTAGE
African Wildlife Foundation	100
America's Development Foundation	100
American Association for Bikur Choalim Hospital, Jerusalem	100
American Dentists for Foreign Service	100
American Friends of Kiryat Sanz Hospital	100
American Jewish Joint Distribution Committee	100
American Leprosy Missions	100
American Near East Refugee Aid	100
Amigos de las Americas	100
AMIT Women	100
Paul Carlson Medical Program	100
Center for Applied Linguistics	100
Chol-Chol Foundation for Human Development	100
Christian Reformed World Relief Committee	100
Christian Eye Ministries	100
Christian Children's Fund	100
Community of Caring	100
Community Development Foundation	100
Community Systems Foundation	100
Compassion International	100
Consortium for Community Self Help	100
Conservation Foundation, Inc.	100
Daytop Village Foundation	100
Dental Health International	100
Direct Relief International	100
Thomas A. Dooley Foundation/Intermed-USA	100
Tom Dooley Heritage	100
El Congresso Nacional de Asuntos Colegiales (CONAC)	100
Elwyn Institute	100
Eye Bank International	100
Eye Care, Inc.	100
Feed the Children	100
Food for the Poor	100
Friends of Our Little Brothers	100
Friends of Children	100
Friends of Shanta Bhawan	100
HIAS	100

PVO NAME	PRIVATE SUPPORT PERCENTAGE
International Agency for Apiculture Development	100
International Aid	100
International Alliance for Children	100
International Child Care/USA	100
International Educational Development	100
International Program for Human Resource Development	100
Nature Conservancy International	100
Near East	100
Operation Bootstrap-Africa	100
Our Little Brothers and Sisters	100
Pacific Ministries Development	100
Pioneer Women	100
Dr. Jose P. Rizal-General Douglas MacArthur Memorial Foundation	100
Santa Fe de Bogota Foundation, Inc.	100
Summer Institute of Linguistics	100
Trickle-Up Program, Inc.	100
Unitarian Universalist Service Committee	100
United Palestinian Appeal	100
United Way International	100
World Concern Development Organization	100
Youth With a Mission	100
Holt International Children's Services	99
American Friends Service Committee	99
Pearl S. Buck Foundation	99
Food for the Hungry	99
MAP International	99
Salesian Society	99
U.S. Feed Grains Council	99
Foster Parents Plan	98
Mennonite Central Committee	98
Program for the Introduction and Adaptation of Contraceptive Technology (PIACT)	98
Holy Land Christian Mission International	97
Institute of International Education	97
World Wildlife Fund--U.S.	97
Hadassah--The Women's Zionist Organization of America	96
American Committee for Shaare Zedek Hospital in Jerusalem	95
American Red Magen David for Israel	95
Laubach Literacy International	95
Ra Tov/International-Jewish Rescue Organization	95
Aga Khan Foundation	93
World Relief Corporation	93
Katalysis Foundation	92
United Israel Appeal	91
Esperanca, Inc.	89
American Refugee Committee	88
Salvation Army World Service Office	86
Institute of Cultural Affairs	85
Winrock International Institute for Agriculture Development	85
Catholic Relief Services	83
Church World Service	82
International Nursing Service Association	82
U.S. Foundation for International Scouting	82
Program for Appropriate Technology in Health	80
Meals for Millions/Freedom from Hunger	79
American ORT Federation	78

PVO NAME	PRIVATE SUPPORT PERCENTAGE
Experiment in International Living	76
African Medical & Research Foundation	75
Cooperative for American Relief Everywhere (CARE)	75
Accion International/AITEC	74
American Schools of Oriental Research	74
OBOR	73
Project Concern International	71
Sovereign Military Order of Malta, Federal Association	71
International Rescue Committee	70
Town Affiliation Association of the U.S.--Sister Cities International	69
World Rehabilitation Fund	68
Minnesota International Health Volunteers	66
Save the Children Federation	66
Domestic/Foreign Missionary Society for the Protestant Episcopal Church in the U.S.A.	65
Lutheran World Relief	65
America-Mideast Educational & Training Service (AMIDEAST)	63
Pan American Development Foundation	63
Young Men's Christian Association of the U.S.A.,National Board	63
Coordination in Development (CODEL)	62
Americares Foundation	60
Centre for Development & Population Activities	60
Helen Keller International	60
Planning Assistance, Inc.	58
Goodwill Industries of America	56
Heifer Project International	56
Project ORBIS	56
Institute for International Development, Inc.	53
International Voluntary Services	52
International Institute of Rural Reconstruction	50
Booker T. Washington Foundation	47
International Executive Service Corps	46
Medical Care Development	46
International Human Assistance Programs	40
Technoserve	40
Council of International Programs for Youth Leaders & Social Workers	39
People-to-People Health Foundation (Project HOPE)	39
AFRICARE	35
Overseas Education Fund	34
African-American Institute	32
Opportunities Industrialization Centers International	32
Adventist Development & Relief Agency	30
National Association of the Partners of the Alliance	30
National Council of Negro Women	30
Foundation for the Peoples of the South Pacific	28
World Vision Relief Organization (1986)	27
Brother's Brother Foundation	26
Simon Bolivar Foundation	24
High Scope Educational Research Foundation	23
International Eye Foundation	23
World Education, Inc.	23
Boy's Clubs of America	21
Partnership for Productivity	12

PVO NAME	PRIVATE SUPPORT PERCENTAGE
San Diego State University Foundation	12
Florida Assoc. of Voluntary Agencies for Caribbean Action	4
Seton Institute (1986)	2

II. The following is a list of PVOs with no overseas programs:

Armenian General Benevolent Union Central Committee of America
International Social Service, American Branch
La Leche League International
National Office for Social Responsibility in the Private Sector
National Wildlife Federation
The Trustees of the Phelps-Stokes Fund
Wisconsin-Nicaragua Partners of the Americas

III. The following PVOs were newly registered and were not required to meet the Private Support Requirement for 1985:

African Methodist Episcopal Church Service & Development Agency
Air Serv International
Andean Rural Health Corporation
Christian Outreach Appeal
Cincinnati Reaches Out
Global Water
Help International, Inc.
Indus Medical Foundation
International Health Council
International Health Foundation
International Institute for Environment and Development
International Lifeline, Inc.
Island Resources Foundation, Inc.
New Israel Fund
Outward Bound, Inc.
Pan Pacific Alliance for Trade and Development
Population Planning Associates, Inc.
Rotary Foundation of Rotary International
Siloam International

IV. The following is a list of AID intermediaries whose funds received from AID were used to support U.S. Government initiated activities:

Aid to Artisans
African American Labor Center
Agricultural Cooperative Development International
American Institute for Free Labor Development
Asian-American Free Labor Institute
Cooperative Housing Foundation
Cooperative League of the USA
Credit Union National Association
International Planned Parenthood Federation/Western Hemisphere Region
International Federation for Family Life Promotion
Mercy Corps International
National Council for International Health
National Rural Electric Cooperative Association
Pathfinder Fund
Planned Parenthood of New York City

Planned Parenthood Federation of America
Population Council
Private Agencies Collaborating Together
The Asia Foundation
Volunteers in Technical Assistance
Volunteers in Overseas Cooperative Assistance

COSTA RICAN CUT FLOWER SUBSIDIES

Mr Helms: A.I.D. encouraged Costa Rican investment in cut flowers for export to the U.S. The International Trade Commission recently found that Costa Rica had been subsidizing these exports and levied a high duty on Costa Rican exports. Whad impact has this had on Costa Rican Cut flower business and how does it affect current and planned A.I.D. programs for Costa Rica? Wasn't A.I.D. aware of the Costa Rica subsidy, and if not, why not? What is A.I.D. promoting now for Costa Rica?

Answer: A.I.D. has long been aware of the potential problem in Costa Rica and elsewhere of export subsidies which do not conform to the structure permitted by the GATT and by U.S. trade laws. In principle, we do not oppose export subsidies carefully designed to counteract the anti-export bias of overvalued exchange rates, high transportation costs and high levels of indirect taxes. Countries which do not adhere to the GATT and its subsidies code, however, run the risk of having countervailing duties imposed, whether or not there is any identifiable harm to U.S. producers. We have long encouraged countries in the region to adhere to the GATT.

The Department of Commerce has recently issued a negative finding on the charges of dumping against the Costa Rican flower industry. The ITC has rescinded duties on Costa Rican flowers because corrective action has been taken by the Costa Ricans in eliminating government subsidies for flower exports. The U.S. complaint and resulting ruling on the Costa Rican flower industry have probably had a significant negative impact on that industry.

More broadly, the entire export industry in Costa Rica is now concerned that investments made to serve the U.S. market can be undercut by actions against small quantities of export production. This has undermined their confidence in the CBI and their willingness to make new investments for establishing trade with the U.S.

A.I.D. provides loans to Costa Rican banking institutions that encourage Costa Rican non-traditional export investments in the country. Several of these banks have made loans to individual flower producers. A.I.D.'s program continues to encourage the diversification of the economy in general, not selective industries, and not cut flowers _per se_.

With regard to the Costa Rican subsidy, A.I.D. and the Embassy became aware of the issue in the context of a broad range of incentives offered by the government to stimulate exports. These incentives were established to compensate, in part, for the disincentives (such as the poor quality and high cost of transportation, infrastructure dificiencies, etc.) facing Costa Rican producers. The Costa Ricans assumed, incorrectly, that export incentives posed no issue of substance because the impact of Costa Rican exports on U.S. markets is so small. Once the issue was raised, A.I.D. and the Embassy focused on the problem by retaining a U.S. trade law expert to analyze the situation and make recommendations to the Costa Rican government. These recommendations were eventually acted upon.

More broadly, A.I.D. and the Embassy have encouraged Costa Rica to enter the GATT. This would harmonize their trade regime with GATT rules and particularly the GATT subsidy code and would bring them the benefit of an injury test on remaining subsidies. The Government of Costa Rica has begun negotiations to adhere to the GATT.

SUDAN PROGRESS ON POLICY REFORM

Senator Helms: Last year's hearings identified Sudan, Liberia and Peru as countries showing little inclination to accept and implement reforms considered necessary for economic improvements. What is A.I.D.'s assessment of the current situation?

Answer: The new democratically-elected Government of Sudan (GOS) has been in place for only ten months; yet, it has recognized the need for policy reform more quickly than did the previous government. However, in its effort to more fully consolidate the new democratic regime, the GOS has felt politically unable to fully institute those reforms which it has identified as necessary to move the economy toward stabilization and growth. There are a number of positive actions that have been taken since last year:

In June 1986 the GOS announced their desire to privatize two large irrigation schemes: the White Nile scheme and the Blue Nile scheme.

Over the last year, exports (except gum arabic) previously calculated at the official exchange rate moved first 30% then 50% to the commercial exchange rate. Though the system of multiple, overvalued exchange rates introduces price distortions and foreign exchange scarcities, the GOS has attempted to make some incremental changes.

To date, far fewer than the necessary comprehensive economic policy reforms have been implemented. The GOS has developed an Economic Salvation Program which we are optimistic will soon provide us with greater detail on the fiscal, monetary and institutional changes proposed to turn the country around. Given Sudan's progress in moving toward a true democracy, we will continue to work with the GOS to support them in laying out politically viable economic policy reform options.

ECONOMIC REFORM IN LIBERIA

Mr. Helms: Last year's hearings identified Sudan, Liberia, and Peru as countries showing little inclination to accept and implement reforms considered necessary for economic improvements. What is A.I.D.'s assessment of the current situation?

Answer: With regard to Liberia, that country is now demonstrating greater awareness of the seriousness of its economic problems and willingness to implement tough economic reform measures considered necessary for economic stabilization and recovery. A.I.D. Administrator Peter McPherson headed an economic mission to Liberia February 8-10. Major results include:

- GOL officials agreed to carry out a series of reform measures, including prohibition of borrowing against offshore revenues and halting of extrabudgetary expenditures; prioritizing external debt payments; and working with the IMF on possibilities for instituting a new currency system and on overall economic reform.

- Agreement was reached that A.I.D. would seek to place 17 U.S.-funded expatriate operational personnel in key financial positions within the Government of Liberia to assist in setting up mechanisms and assuring compliance with the agreed upon reform measures. They are to have co-signing and co-approving authority in a broad range of revenue and expenditure areas.

PERU'S INCLINATION TO IMPLEMENT NEEDED REFORMS

Senator Helms: Last year's hearings identified . . . Peru as a country showing little inclination to accept and implement reforms considered necessary for economic improvements. What is A.I.D.'s assessment of the current situation?

Answer: One year ago, it was A.I.D.'s assessment that the economic program being implemented by the new Government of Peru was sacrificing the country's long-term growth potential for the sake of achieving a short-term reactivation of the country's high-cost import-substitution industrial apparatus and for the sake of political posturing on the external debt question.

Shortly after taking office, the GOP enacted widespread quantitative restrictions on imports together with comprehensive price controls. It then began to implement a highly expansionary monetary program in order to reactivate domestic production. The initial impact of this program was a substantial expansion of output, employment, and wages, but, as we predicted, at the expense of an unsustainable loss of foreign exchange. International reserves, which were increasing at a rate of about $60 million per month, according to the best data available, in the first months of the new administration, have been, in recent months, decreasing at a rate of about $100 million per month. At the same time, the government's import and price policies, combined with its reluctance to adjust state enterprise tariffs, have produced a steadily deteriorating fiscal situation which now threatens to re-ignite hyperinflation.

There are increasing indications in the press and elsewhere that some individuals within the GOP are deeply concerned with the rapidly deteriorating fiscal and balance of payments situations. As yet, this concern has not crystalized into a consensus about the action required to deal with the situation.

At the same time, the new government has shown increasing flexibility in dealing with sectoral issues in what we would regard as a sound way. After an initial attempt at controlling food prices as an anti-inflation measure led to acute shortages and widespread embarrassment for the government, the government shifted to a flexible policy which recognized the need for adequate incentives for producers. It has also shown a willingness to seriously consider fundamental market-oriented reforms of rural institutions which go well beyond anything the previous government was willing to entertain.

Fundamentally, A.I.D. is encouraged by the increasing pragmatism of the GOP and expects that critical macroeconomic reform measures will be addressed late in 1987 or early in 1988.

Senator Helms: Has A.I.D. developed any measurable standard for an acceptable level of private sector development staff expertise?

Answer: The long-range success of private enterprise programs is heavily dependent upon the capabilities and experience of the individuals who design, implement and service these programs. The private sector approach in the provision of development assistance offers the potential for self-sustaining long-term economic growth with equity.

Through systematic training of existing staff, and mid-level recruitment of persons with business and banking backgrounds, A.I.D. is establishing a cadre of personnel with the experience and capabilities needed to design and implement private sector-oriented programs.

The level of expertise needed by current staff to implement private sector development programs, is being reached through special A.I.D. training programs. One of these, "The Role of Private Enterprise in Development" has now been successfully instituted. This highly regarded program has thus far trained over 100 employees, and is being offered again during the Summer of 1987. By 1990, A.I.D. plans to have trained 500 direct hire employees. A modified version of this program may be taken "to the field" in FY 1988 for training of host country support staff and others. In addition to the private enterprise course, A.I.D. staff receive short- and long-term training in financial analysis, business, and economics to expand their knowledge of these disciplines critical to private enterprise development. A.I.D. also sponsors periodic seminars on such topics as venture capital, debt equity swaps, privatization, and financial management for small scale enterprises.

A.I.D. OFFICE IN ZIMBABWE

Senator Helms: Are reports accurate that A.I.D. plans to establish some sort of regional office in Zimbabwe? Could you provide any details on this proposal as well as its cost? Is this included in the FY 88 budget?

Answer: A.I.D. is not planning to open a new office in Zimbabwe. The A.I.D. mission in Zimbabwe has, since 1981, been responsible for management of both the Zimbabwe bilateral program and the Southern Africa Regional Program. The decision to manage the Southern Africa Regional Program through the bilateral mission was taken to conserve both staff and financial resources. We plan to manage the expansion of the Southern Africa Regional Program within the current staff level of 13 U.S. direct hire foreign service employees in Zimbabwe. This staff level is projected in our FY 88 budget.

IUDS IN FAMILY PLANNING PROGRAMS

Mr. Helms: I understand that no company now markets intrauterine devices (IUDs) in the United States, even though some IUDs may still have Food and Drug Administration approval. As you know, litigation resulting from IUD use has caused them to be withdrawn from the U.S. market. What is the current practice of A.I.D. with regard to IUDs in its population control efforts? Has the recent experience in the U.S. caused A.I.D. to reassess its previous policy of promoting IUD use abroad in light of the possible harm done to many American women from IUD use?

Answer: A.I.D. policy supports the provision of a range of safe and effective methods of contraception so that couples may choose the method appropriate for them. We currently support a number of voluntary family planning programs which offer IUDs as well as other methods. A.I.D. provides funds for commodities, training and delivery systems.

A.I.D.'s position to provide IUDs was supported by an Expert Scientific Group, convened December 1986 by the World Health Organization (WHO), which concluded that: "IUDs are safe, effective and reliable."

The decision to withdraw IUDs from the U.S. market was based on financial considerations peculiar to the United States: Companies such as Searle were faced with high costs of litigation in the absence of affordable liability insurance. As noted in your question, the issue was not one of safety: IUDs provided by A.I.D. are approved by the FDA for use in the United States.

The financial considerations which led to Searle's decision are not relevant to A.I.D.'s responsibility to provide high quality IUDs to women who want them in developing countries. We continue to monitor our IUD programs.

AVAILABILITY OF CONTRACEPTIVE METHODS

Mr. Helms: Would you provide for the record a table showing: (1) each country in which we are financing population control programs, (2) how much is spent on each form of contraceptive in each country, as well as on sterilization, and (3) the predominant religion in that country. Additionally, please provide for the record a list of any countries which have requested an end to U.S.-financed population programs and the reasons given for the request. How soon are such programs terminated once a request is made?

Answer: Our records on population assistance do not contain population program breakdowns by contraceptive method. We are analyzing the records to determine the availability of methods in countries receiving A.I.D. support and the major religions of those countries. We will be forwarding this information to you.

We are unaware of any government request for termination of U.S. sponsored family planning assistance.

SECTIONS 106/108

Mr. Helms: Will the Administration meet the legislative goal?

--Will A.I.D. succeed in meeting the legislative target that 25 percent of local currencies generated by fiscal year 1987 Title I commodity sales be used for private enterprise lending programs authorized by P.L. 480 Sections 106 and 108?

--Which countries have submitted proposals for Section 106 or 108 programs to date?

--What major obstacles have missions encountered in developing these programs and obtaining recipient government support?

--How can we encourage foreign governments to accept this program?

--Please list efforts by A.I.D. missions to secure Section 108/106 funds.

Answer: A total of four Section 108 programs with an aggregate value of $14 million have been signed since the guidance on this new program was sent to the field in August 1986. One of these programs, in Tunisia (for $1 million) was an FY 86 program. The balance, as follows, were FY 87 programs: Sri Lanka - $1.2 million; Jamaica - $7 million: Costa Rica - $4.8 million. This latter $13 million represents approximately 4% of the $322 million in Title I sales agreements that have been signed to date. We are now working on Title I agreements with Indonesia and Morocco, each of which are expected to have $10 million Section 108 provisions. Assuming these agreements are signed in the coming weeks as planned, the total Section 108 program level would rise to $33 million or 9.6% of the aggregate sales world-wide at that point. Beyond that, we cannot speculate on what the totals will be this year. We were disappointed to learn, however, that neither Egypt nor Pakistan, two of our larger programs, were interested in a Section 108 program this year.

With regard to the 15% target for Section 106 programming, we anticipate that the target will be met A more accurate reading will be available toward the end of the fiscal year when detailed data on self-help activities will be available.

The major obstacle which Missions have encountered in obtaining recipient government support of these programs is simply this: the host governments' development budgets have come over the last several years to depend on the local currency generations that flow from Title I sales contracts. It is difficult to convince these governments to sign agreements that would divert the local currency away from these legitimate governmental purposes -- notwithstanding the potential benefits to the private sector in each of these countries. Other obstacles include: (a) the non-availability of totally privately owned banks operating in certain of the Title I countries (particularly in Africa) to serve as intermediate financial intermediaries; (b) the existence of surplus local currency liquidity for private sector lending in the recipient countries (a specific example of this situation is the Dominican Republic, where large sums of local currency generations from ESF programs are available for this type of lending); and (c) the lack of trained U.S. Embassy and mission personnel to operate such programs.

In response to these challenges, AID/Washington has held a number of seminars for mission directors and country team food officers, outlining the potential benefits of the local currency lending program. Along these same lines, major meetings of PVO, co-op and international banking representatives have been held to promote their involvement in this program.

FOOD ASSISTANCE: GUIDANCE ON MONETIZATION

Mr. Helms: What guidance has been provided to Private Voluntary Organizations (PVOs) regarding the purposes for which local currencies generated by the sale of Title II and Section 416 commodities can be used? What is the rationale for the priority uses established? Please provide the legislative basis for these priorities.

Answer: Since the 1985 Food Security Act was enacted, A.I.D. has sent a series of cables to the field -- for A.I.D. field staff and PVOs -- which define monetization of project food aid and request proposals from the PVOs. In addition, A.I.D. has shared draft policy guidelines on monetization of project food aid with the PVO community.

The priority uses established by these directives include: (1) costs associated with transport and storage of project food aid commodities and (2) ancillary costs which enhance the basic objectives of the project. These uses are important for two reasons: (1) Logistical costs can represent the major costs of a project. These costs can be prohibitively high, particularly in the least developed areas of the world. For a food aid project to reach its objectives, the food must reach the intended recipients. Where no other resources are available, monetization provides one means of project support in this vital area. (2) Frequently, food alone cannot ensure that project objectives will be met. Non-food resources -- such as shovels for Food for Work, scales for Maternal Child Health, and books for School Feeding Programs -- are generally necessary to meet project goals. Again, monetization is one means of providing these inputs.

In drafting policy guidelines on monetization of project food aid, A.I.D. responded to the congressional mandate as expressed in the 1985 Food Security Act.

FOOD ASSISTANCE: MINIMUM TONNAGE REQUIREMENT

Mr. Helms: The Food Security Act of 1985 increased the Title II tonnage requirement for nonprofit voluntary agencies, cooperatives, and the World Food Program from 1.3 million tons per year to 1.425 tons beginning in fiscal year 1987. What effect has this had on Title II? What priorities have been established and communicated to the PVOs for using these additional commodities? Which regions or countries have been targetted?

Answer: There has been a concerted effort to meet this congressionally mandated minimum tonnage. The WFP component of regular program activity will be nearly 400,000 mt. This level of WFP activity is compatible with our expectations under the U.S. pledge. On the PVO side, in anticipation of difficulty in meeting this requirement, we have encouraged the PVO community to submit new proposals and have requested new program initiatives through our field Missions. Rising costs of transport and implementation as well as those associated with better targetting and increased developmental focus have made expansion difficult. We are particularly encouraging new project start-ups in Africa in the aftermath of the recent emergency. In addition, we are maintaining support to our longer term efforts in Asia.

FOOD ASSISTANCE: PVOS IN AFRICA

Mr. Helms: Have PVOs experienced problems in obtaining funds for commodity transportation and Title II operating costs which have made them less willing to continue programs at current levels or expand food assistance in Africa? In view of the potential for recurring famine, what can A.I.D. do to ensure that PVOs maintain a strong presence in Africa?

Answer: Costs of implementing project food aid in Africa are high. Transport costs may run as high as $500 to $700 per metric ton. As PVO projects extend to rural areas, are generally better targetted and become more developmental, implementation costs increase over historical levels. Most PVOs do not have the resources to cover these costs in their entirety. In addition, many of the African countries which have the greatest need for project food aid are experiencing economic hardship and are less able to contribute resources to these projects. A.I.D. is actively exploring sources of complentary funding with the PVO community. These include dollar grants -- Operational Program Grants, and Enhancement and Outreach grants, as well as local currencies generated by sales of food aid. Monetization of project food aid is one source of local currencies. Other sources include Title I, Title III and Title II Section 206 programs.

RECIPIENT GOVERNMENT PROGRAMMING OF LOCAL CURRENCY

Mr. Helms: The Food Security Act of 1985 specified that recipient governments will have free use of local currencies generated by the sale of U.S. commodities, and subsequent interagency guidelines have stated that A.I.D. missions should not attempt to influence local currency use. Does A.I.D. still maintain, as it did in 1985 when the provision was adopted, that local currencies generated by Title I sales represent a valuable development resource which should be subject to joint U.S.-recipient government programming? Has A.I.D. made any efforts to encourage or discourage participation in this program?

Answer: A.I.D. continues to maintain that sales proceeds from Title I programs represent a valuable development resource. A.I.D. policy on "Programming Local Currency" establishes the conditions under which Missions should become relatively more and relatively less involved in programming local currency generated under Title I and other USG non-project assistance programs. The policy guidance indicates that detailed local currency programming may not be called for when: (a) the government's budgetary resources are already allocated in such a way as to reflect appropriate development priorities; and (b) significant policy or institutional reform or structural adjustment is achieved in conjunction with the resource transfer.

Both of these conditions are likely to be satisfied when Food for Progress programs are under consideration. Section 1110 of the Food Security Act of 1985, which establishes this food aid program, does not address how local currency generations are to be treated; implementation guidance prepared by the food aid subcommittee of the Development Coordination Committee (DCC) states that local currency programming and documentation are not required in FY 1986 and FY 1987.

Section 1111 of the Act amends Sections 106 of the PL 480 legislation and adds a new Section 108 to encourage up to 25% of aggregate Title I proceeds be programmed for private sector development. The DCC has approved and disseminated guidance for implementing this legislation.

FOOD ASSISTANCE: FOOD FOR PROGRESS

Mr Helms: Would you summarize the participation in the Food for Progress Program established by the Food Security Act of 1985, including the reforms undertaken by individual governments in exchange for surplus U.S. food? Do you support multiple year commitments of surplus food? Do you support use of Section 416 commodities? Will the 75,000 mt minimum for FY 1987 be met? What are your future plans for promotion of the Food for Progress program?

Answer: In FY 1986, guidance on the Food for Progress program was sent to field Missions and proposals for pilot projects were requested and received from seven African countries. The best two -- from Madagascar and Guinea -- were selected for immediate FY 1986 funding.

Reforms undertaken in the two pilot programs are as follows: (1) In Guinea the 30,000 mt of rice per year is being used to promote liberalization of marketing policies -- changes in exchange rates, privatization of government banks, abolition of food rationing, and liquidation of most parastatals. (2) In Madagascar the program is strengthening a recent initiative to remove state controls on rice trading. Specifically, the 30,000 mt of rice in the program has been used to dampen price swings as government controls are lifted.

We support multi-year commitment of surplus food. One reason is that multi-year commitments provide greater incentives for receiving countries to undertake difficult reforms. However, as food aid budgets are approved on an annual basis, authorization of actual tonnages must be subject to annual availabilities.

We support the use of Section 416 commodities for Food for Progress programs; we actively supported this provision in the 1985 Farm Bill. Section 416 has been used exclusively for Food for Progress to date. We intend to continue to use this food aid resource.

We are hopeful that we will meet the 75,000 mt minimum set for FY 1987. In an effort to do this we have expanded the Food for Progress program beyond Africa to all geographic regions.

In FY 1987, the guidance for the Food for Progress program was modified based on the experience of the two pilot programs in Africa and sent to 16 additional Missions worldwide. We anticipate several program start-ups.

FUTURE OF ROCAP

Mr. Helms: In September, 1986, the General Accounting Office reported on the evolution, status, and viability of A.I.D.'s regional economic assistance programs for Central America. GAO found that in view of existing political and economic conditions, extensive Central American regional programs do not appear to be viable. In addition, GAO found that A.I.D.'s commitment to regional programs may be uncertain given the long-standing questions within the agency on the role of the regional program and the fluctuating funding and staffing levels according the Regional Office for Central America and Panama (ROCAP) throughout its 24-year history.

In view of the significant reductions in A.I.D.'s fiscal year 1987 budget -- and, in my judgement, the likelihood of continued restraint in spending on A.I.D. programs -- what are A.I.D.'s plans for ROCAP in the future? Has A.I.D. decided to maintain ROCAP on a long-term basis?

Answer: The role, program, organization, and staffing of ROCAP were reviewed last summer. As a result we decided to:

Concentrate ROCAP programs on key development problems which were identified by the Report of the Bipartisan National Commission on Central America and which lend themselves to regional approaches;

Develop key regional institutions into viable, self-sustaining centers of excellence;

Undertake regional studies that would inform our bilateral missions and the Central Americans of cross-national, regional development issues.

Cut back ROCAP's responsibilities for providing technical assistance to the bi-lateral missions.

Cut three proposed new activities from ROCAP's FY 88 program.

Cut ROCAP's staff from 17 to 11 direct hire.

We believe that the above ROCAP role and configurations at an annual level of approximately $30 million provide a sound basis for helping to achieve U.S. economic and development objectives under the Central American Initiative over the medium term.

ROCAP

THE GAO AUDIT - COORDINATION WITH BI-LATERAL MISSIONS

Mr. Helms: The GAO report also concluded that coordination between ROCAP and A.I.D.'s bilateral missions was insufficient to assure that their programs are complementary. What, if any, specific actions has A.I.D. taken to improve coordination between ROCAP and the bilateral missions?

Answer: A.I.D. is improving coordination in three ways: by more vigorously applying existing mechanisms for coordination, introducing new coordinating mechanisms and reducing and focusing ROCAP's work. The existing mechanisms are:

- Review by the bi-lateral missions of all ROCAP Project Identification Documents (PID's) and all Project Papers (PP's); and

- Review at the ROCAP Mission, of ROCAP's annual action plan by the Deputy Directors of the bi-lateral missions.

The new coordination mechanisms are:

- ROCAP presentation of its program to the Central American Mission Directors Conferences; and

- ROCAP review of the action plans of the bi-lateral missions.

ROCAP: INSPECTOR GENERAL'S AUDIT

Mr. Helms: An audit, in August, 1986, by the Inspector General of A.I.D. found a number of serious deficiencies in the internal control systems and administrative and fiscal procedures of several regional institutions which have been major recipients of ROCAP funds. In addition, the audit found that member governments were $5.6 million in arrears on their payments to the institutions and questioned the institutions' use of $454,000 in ROCAP funds. The Inspector General made several recommendations to ROCAP to correct these problems. What, if any, progress has ROCAP made in carrying out the Inspector General's recommendations? Has ROCAP recovered any of the funds from the institutions which were requested by the Inspector General's report?

Answer: On January 16, 1987, the Regional Inspector General (RIG) in Honduras issued a cable accepting the actions taken by the Mission in response to each of the sixteen recommendations made by the RIG and officially closing the audit of regional grantees. The RIG complimented the Mission on its use of the audit as an effective managment tool.

The original RIG audit found four of the six institutions to have problems in administrative and/or fiscal procedures. The audit questioned $454,197 in project costs as needing review. Subsequently, a comprehensive audit done by the

Mission Controller revealed actual overbillings amounted to only $77,664. The RIG concurred with the Mission's findings. As of March 24, 1987, ROCAP had issued bills of collection or made deductions from reimbursement vouchers for $77,664. Of this amount a total of $64,301 has been liquidated to date. ROCAP will deduct the remaining $13,362 from future vouchers.

The RIG audit also recommended that "ROCAP coordinate with AID bilateral Missions in Central America to encourage or make it possible for the founding governments of "the regional institutions audited" to bring themselves current in delinquent quota payments." As of October 1986 total quota payments owed to the regional institions audited was $7.4 million. Of this amount, half, $3.5 million is owed by Nicaragua. With their severe debt burdens, the Central American governments cannot bring all of their accounts current with all of the regional institutions immediately. The Central American governments, however, have demonstrated a serious interest in bringing their accounts with the institutions up to date. Available data also shows that the countries of the region are making a good effort at meeting their 1986 quota payments:

- The Nutrition Institute for Central America and Panama (INCAP) - Member countries paid in a total of $275,000 against their annual quota of $300,000 in 1986.

- The Inter-American Institute of Agricultural Cooperation (IICA) - Member countries paid in $210,000 against their annual quota of $204,000 in 1986.

- The Central American Research Institute for Industry (ICAITI) - Member countries paid in a total of $373,800 against their annual quota of $400,000 in 1986.

- The Permanent Secretariat of the General Treaty for Central American Economic Integration (SIECA) - At $2.0 million SIECA has the highest yearly quota requirement. At the end of 1985 member countries were $2.8 million in arrears with SIECA (of this amount, Nicaragua's debt was $510,000). In 1986 total arrears were $4.2 million, $2.2 was owed by Nicaragua. Other member countries paid in the full amount of their 1986 quota and reduced their arrears by $300,000 (from $2.3 to $2.0 million).

- Additionally, although the RIG did not include the Central American Bank for Economic Integration (CABEI) in the list of arrearages, significant improvement has occurred. As of December 31, 1985 the Central American governments had paid $38 million in arrearages owed to CABEI on public sectors debt and are currently keeping their loan repayments current.

Significantly, despite their strained economic circumstances the member countries have also paid in new capital of $40.0 million.

The Central American countries also provide technical and other "in-kind" support for research activities of regional institutions and participate in seminars, conferences and other programs for the purpose of increasing their information base and exchanging ideas and experience in the various technical areas supported by the institutions.

As long as current economic stringencies continue in the region we cannot expect that all the arrears which have been accumulated over several years will be paid at once. However, we continue to encourage the Central American countries to remain current with their obligations and steadily reduce past arrearages.

ROCAP: VIABILITY OF REGIONAL INSTITUTIONS

Mr. Helms: In view of the member governments being substantially behind on the payment of their dues to some of the regional institutions receiving ROCAP funds, how can ROCAP assure that these institutions will be financially viable over the long-term and not become overly dependent on continued A.I.D. assistance?

Answer: In its design and implementation of projects ROCAP continually looks for ways to strengthen the resource bases of the participant institutions. The Mission is currently contracting a team to look at the long-term viability of the regional institutions and make recommendations on either strengthening their position or phasing out some of them. The Mission is currently implementing three projects incorporating activities to improve the long-term viability of the implementing institutions. Specifically:

The Central American Bank for Economic Integration

(CABEI). Under the ROCAP Regional Economic Recovery project the Bank's liquidity situation has been significantly improved - $38 million in public sector arrearages have been collected, extra-regional and/or concessional loans are being solicited and a club loan with private foreign banks for $170 million has been signed. Each of these steps was required as a condition of A.I.D. assistance.

The Tropical Agricultural Center for Research and Training (CATIE). A component written into the ROCAP Agricultural Higher Education project will assist the Center in establishing a development office. The overall purpose of the office is to achieve longer-term self-sufficiency and increase outreach. Activities will include corporate, international organization and foundation relations, major gifts, development publications and promotions and special consultation programs, all of which are expected to generate an estimated $3.0 million for the Center and greatly improve its resource base.

Central American Business Administration School (INCAE). Under the ROCAP Export Management Training project, INCAE developed its own management plan which includes several activities to build a stronger, more financially self-sufficient institution. One example is the creation of an endowment fund. In 1982 USAID/Costa Rica provided INCAE with a challenge grant of $5.0 million in local currency which was matched by grants from Central American businessmen and funds raised in the U.S.

CARIBBEAN BASIN INITIATIVE (CBI)

Mr. Helms:	How does A.I.D. assure that its investment and export promotion projects in the Caribbean Basin are not having an adverse effect on U.S. producers?
Answer:	A.I.D.'s investment and export promotion projects under the Caribbean Basin Initiative are focused primarily on fresh and processed agricultural products (excluding citrus and palm oil with which A.I.D. is not involved) and light industrial goods. In most countries, the existing industrial capacity and agricultural production base for these non-traditional products is not well established. Thus, current levels of exports of these types of products from Basin countries constitute only about 5% of the total exports of the region. Conversely, the U.S. imports only a very small portion of its total requirements from the Basin. In non-traditional agricultural products, only about 2% of total U.S. imports come from the Basin. For manufactures, the CBI accounts for only 0.7% of total U.S. imports. In contrast, 2.8% of total U.S. exports of manufactures go to CBI countries. The U.S. had a trade surplus on manufactured trade of $2.5 billion with CBI countries in 1985, compared with a worldwide deficit of $82 billion. Traditional agricultural export commodities still represent about 90% of agricultural exports from Central America and the Caribbean. Our objective, in supporting the promotion of non-traditional exports, is to assist in diversifying the narrow base of the countries' economies, which are highly vulnerable to depressed world prices for these

exports. At this time our efforts are just beginning to show some successes. However, the magnitude of exports is still low and thus it is unlikely that U.S. producers are adversely affected.

At the same time, it is very important to note that some U.S. firms are increasingly benefiting from A.I.D.'s efforts. Competition from the Far East has seriously affected a number of U.S. industries (e.g. apparel and electronics). In response, some U.S. firms have sought to remain competitive by locating at least a portion of their production operation offshore, thus preserving--and in some cases increasing--U.S. jobs. In the last few years the Basin countries have benefited from U.S. investments, and the number of twin plant production operations, both in agriculture and industry, has grown. This trend seems likely to continue.

INVESTMENT PROMOTION ACTIVITIES

Mr. Helms: In which CBI beneficiary countries does A.I.D. view its investment promotion and export promotion efforts as being most successful? In which countries have these projects been least successful?

Answer: A.I.D.'s efforts to promote investments have been most successful in Costa Rica, where A.I.D. has worked to strengthen a public sector agency - the Ministry of Export (MINEX) and to establish several private institutions, including CINDE, which is a private sector-led development foundation and the Private Investment Corporation (PIC), which is a bank providing equity and long-term loans to foreign and Costa Rican investors. These initiatives began in 1984. In 1986 alone, an estimated 20 new, export-oriented companies which employ about 4,000 persons were established as a result of the collaborative efforts of the Costa Rican Government and CINDE.

In Jamaica, A.I.D.'s programs have strengthened several public and private institutions with the objective of promoting foreign investments, working with local companies to develop exports, improving the public policy and providing needed infrastructure and support services. The focus of much of A.I.D.'s assistance has been the Jamaica National Investment Promotion Corporation (JNIP), which directs much of its attention to promoting light industrial investment in the free trade zones located in Kingston and Montego Bay. Another group, AGRO 21, was established to focus on agribusiness ventures.

As a result of JNIP's efforts with the Kingston Free Zone, the zone has expanded from 186,000 square feet of factory space and an employment level of 240 persons in 1981 to 546,000 square feet of space with nearly 8,000 employees in 1986. A.I.D. funding through JNIP, together with World Bank finance for construction needs, helped account for this growth.

In much the same way, the Dominican Republic has achieved spectacular success in promoting exports through the use of duty-free Export Processing Zones. The GODR has estimated that 30,000 workers are directly employed in the zones and that a further 45,000 jobs have been created to furnish inputs and services to the zones.

Factors which have contributed to these successes include:

- Favorable economic policies, in particular realistic exchange rates, but also favorable tax incentives to stimulate investment in export earning projects.

- A democratic and politically/socially stable environment.

- Reasonable physical infrastructure (i.e., availability of electricity, water, telephones, roads, etc.)

- A government bureaucracy willing to reduce impediments and red tape.

- A local business community which is investing in its own country.

A disappointing country has been Panama. A.I.D.'s project with the Investment Council of Panama (ICP) has not yet achieved its objectives of strengthening the organization and attracting investors. The reasons include: failure of the ICP to retain top management and to consolidate its operations (there have been four ICP directors in as many years); Panama's deteriorating economic conditions; the political turmoil (changes in the presidency); and the labor code, which is excessively rigid and causes wage rates to be non-competitive with neighboring countries. Nonetheless, discussions with the current government are continuing and we have hopes for a successful outcome.

TRADE CREDIT INSURANCE PROGRAM (TCIP)

Mr. Helms: **What is the total amount of credit commitments made under the Trade Credit Insurance Program today? What is the total amount of bad debts that have been incurred? How much is currently being set aside in a bad debt reserve?**

Answer: As of January 31, 1987 the cumulative total of letters of credit confirmations under the program was $207,399,000. (This compares with a cumulative total of $60,645,000 at the end of March 1986.)

There have been no bad debts or losses incurred under the program; indeed, as of January 31, 1987 no insured U.S. bank was reporting overdues in excess of 30 days.

A total of $20 million has been obligated ($10 million in FY 1985 and $10 million in FY 1986) for the bad debt reserve by agreement between A.I.D. and Eximbank. During FY 1987 we are holding a total of $5 million out of bilateral ESF programs which will be released later to the extent it is not required to meet claims.

REPROGRAMMING OF TCIP FUNDS

Mr. Helms: What was done with the reprogrammed FY 1985 funds? Were funds set aside for FY 1986 also reprogrammed, and, if so, for what purpose?

Answer: In FY 1985, we reprogrammed $50 million of the $60 million originally programmed for the TCIP reserve to other Central American (CA) Regional projects--$35 million for the ROCAP Regional Economic Recovery project with CABEI, $11 million for the ROCAP Regional Agricultural Higher Education project and $4 million for the CA Regional Strengthening Democracy project. This was possible because of the slower than expected starting of TCIP and the fact that there were no losses.

For FY 1986, funds set aside for the TCIP were also reprogrammed. While $40 million was requested in the FY 1986 Congressional Presentation, we reduced funding to $19 million in developing the Operational Year Budget because of worldwide budget reductions, and following its initial months of operation, it was clear that less funds were needed for bad debt reserves in the program. During the year $10 million was actually obligated for the reserve. Of the $9 million balance, $8 million was reprogrammed for Haiti and $1 million was reprogrammed for the CA Regional Energy Resources project with Los Alamos Research Laboratories. Both reprogrammings were done in August 1986.

TRADE CREDIT INSURANCE PROGRAM (TCIP)

Mr. Helms: What evidence is there that the goods imported under the program have generated increased exports, one of the stated purposes of the program?

Answer: By the nature of the TCIP it is very difficult to relate its activities directly to the generation of specific imports. Rather, the TCIP should be seen as one of several programs and mechanisms which, together, are intended to have a positive impact on the increase of exports from Central America. As one example, the result of efforts to promote non-traditional exports, has so far been encouraging. Non-traditional exports have been growing since 1983 at an annual rate of 15%, a very significant rate. As a result, their share of total exports has been risen from 21.6% in 1983 to 26.5% in 1986. We project that they will rise to about 40% by 1992, providing a basis for dynamic growth by then.

Mr. Helms: In view of the limited use of the program, what future plans or strategy does A.I.D. have for this program?

Answer: While it is true that the program moved slowly in its initial stages, and has still not achieved the level of utilization that some had originally anticipated, it has shown significant progress, as evidenced by the total of $207.4 million in letters of credit which had been confirmed by January 31, 1987.

The important consideration is that, at the level at which it has now begun to operate, the TCIP has been a useful device to the countries of Central America, and has not resulted in claims made against the U.S. Government. For this reason, we are proposing to extend the TCIP through 1992, as part of the "stretch-out" of the Central American Initiative.

MOZAMBIQUE AID

Q. You are aware of concerns that were raised during famine relief efforts in Ethiopia in which reports indicated that the Ethiopian government diverted the use of trucks and other equipment for the war effort rather than for the delivery of food to the starving population. What, if any, steps have been taken to ensure that no U.S. equipment is acquired by the Marxist government of Mozambique as a result of the recent assistance you initiated for that country?

A. First, there is very little similarity between the Ethiopia situation and that in Mozambique. Foremost among the differences is the excellent cooperation and support demonstrated by the Mozambique government to donors and relief organizations assisting with humanitarian relief efforts.

Second, the U.S. and other western donors have been providing relief assistance to Mozambique for several years in response first to the drought disaster and currently to continuing disasters resulting from the rural insurgency. To facilitate these efforts, the Government established the DPCCN (Department for the Prevention and Control of Natural Calamities) and within that organization a Logistical Support Unit (managed by CARE). The CARE operation monitors the receipt, storage and distribution of food and equipment donated by donors for the emergency relief program. By all accounts, the UN's, other donor's and our program, the DPCCN and CARE are doing an outstanding job of ensuring that food, relief supplies and equipment donated for the humanitarian assistance efforts are indeed used as intended by the U.S. and other donors.

Finally, it should be clearly understood that the U.S. as well as all other donors are responding to an emergency food situation and are doing so with the full cooperation and in support of the Mozambique government's own efforts to deal with this situation.

Q. What efforts are you making to observe Congressional limitations on aid to the Government of Mozambique? How will you ensure that this program will not become one of aid to the Government of Mozambique?

A. The A.I.D. program in Mozambique is in full compliance with Congressional limitations on aid to the Government of Mozambique and as long as Congressional restrictions exist, the A.I.D. program will remain in full compliance. This year as in the previous four years, the ESF-funded agricultural commodity import program provides scarce foreign exchange for the importation of scarce agricultural inputs for private sector farmers.

The P.L. 480 humanitarian emergency food assistance program is not subject to the current Congressional limitation in the A.I.D. authorization.

Q. Can you identify another occasion when the U.S. provided assistance in response to a "political disaster, not one made by Mother Nature"? (McPherson, Washington Post)

A. Like Mozambique, Ethiopia and Sudan continue to suffer from both natural disasters as well as political disasters. In all cases, the latter appears more enduring and costly. The most important factors are the desperate need of those who suffer, and the humanitarian obligation of those who can help - not whether the cause of a disaster is natural or political in origin.

RESPONSES OF M. PETER McPHERSON TO QUESTIONS ASKED BY SENATOR KASSEBAUM

CHILD SURVIVAL AND BIRTH SPACING

Ms. Kassebaum: The foreign aid statute specifically cites child spacing as an important child survival intervention. How much of the funds appropriated for child survival programs are spent on child spacing? Do funds appropriated for health support integrated health and family planning projects? How much health money is involved in these projects in FY 1987 and proposed for FY 1988?

Answer: The Foreign Assistance Act specifically cites birth spacing as one of the important interventions to reduce infant and child mortality and to improve the health of mothers and children.

Because of its impact on the mortality and health of both mothers and children, birth spacing is an integral part of A.I.D.'s Child Survival Strategy. The strategy identifies promotion of breastfeeding and provision of a full range of voluntary family planning services and supportive activities as being the birth spacing interventions most closely related to child survival. The Agency is developing a birth spacing strategy to guide programming this area. In addition, the strategies of at least two of the Child Survival Emphasis countries (Kenya and Bangladesh) are putting priority on birth spacing as the most important focus for the A.I.D. child survival program.

The bulk of the resources for A.I.D.'s birth spacing activities continues to come from the Population Account. In addition, between $5 and $8 million of the Agency's child survival activities (Health Account and Economic Support Fund) are devoted specifically to birth spacing activities. We expect this level to continue in FY 87 and FY 88.

Child Survival projects with a birth spacing component include those underway in Haiti, Egypt, Indonesia, Zaire, Liberia, and Peru and in a variety of PVO projects. In the field, many health, child survival and population-funded projects do integrate health and family planning, often drawing from both functional accounts.

RESPONSE OF SECRETARY BAKER TO QUESTIONS ASKED BY SENATOR TRIBLE

Senator Trible: As you know, there is some concern about whether our trade interests are being sacrificed as the Administration considers the LDC debt problem. For example, if there is still no movement on the Brazil informatics case by the June deadline, would you favor action against Brazil?

Secretary Baker: Any fear of the Reagan Administration sacrificing our trade interests when debtors are involved is unfounded. We self-initiated Section 301 cases against Brazil and Korea and cut their benefits in the GSP General Review, and settled a whole range of issues with Korea (intellectual property, motion pictures, insurance).

On Brazilian informatics, although we are not satisfied, we have received some concessions--reduced product coverage for market reserve, an ad hoc group to ease compliance with regulations, some protection for computer software.

I can't tell you what my private recommendations to the President will be at the end of June, but I can assure you debt considerations won't dictate them.

RESPONSES OF M. PETER McPHERSON TO QUESTIONS ASKED BY SENATOR McCONNELL

Mr. McConnell: A.I.D. recently announced that it will provide $50 million in aid, including 150,000 tons of food, to Mozambique. What criteria were applied in reaching the decision to provide aid?

A.I.D.'s fact sheet appears to be based on information provided by the Mozambique government. What effort was made to independently verify the information?

ANSWER: First, the U.S. Embassy and, since 1984, the A.I.D. Affairs Office in Maputo, continuously monitor and assess the situation throughout Mozambique. Based on information made available to him from the government, other donors, PVOs and other international relief agencies as well as his personal knowledge of the situation, Ambassador Peter Jon DeVos, on January 8, 1987, declared an emergency of dangerous proportions caused in part by the lingering affects of the drought, but primarily by the continued insurgency throughout most of the country. The U.S. decision to continue its humanitarian emergency relief assistance was based on the assessment that approximately 3.9 million Mozambicans are considered "at risk" of starvation. This assessment has been confirmed by the UN and documented in the UN's emergency appeal.

Mr. McConnell: When did this crisis develop?

Answer: The current situation in Mozambique is the result of an accumulation of factors over a period of several years. One factor is the RENAMO insurgency, started with help from the then white-ruled Southern Rhodesia and subsequently supported by South Africa, which has destroyed infrastructure and disrupted food production in the country. This situation was compounded in 1982-1985 by the worst drought in Mozambique's modern history. The current situation is the result of the lingering affects of the drought, years of economic mismanagement which the GPRM is now trying to correct, an almost totally collapsed economy and the continuing violence of the insurgency itself.

Mr. McConnell: Is the food being provided from surplus U.S. stock? If so, how will the remaining funds be spent?

ANSWER: The $50 million figure was an estimate based on the approximate delivery cost ($40 million) of 150,000 MT of P.L. 480 Title II commodities (U.S. surplus stock) and the private agriculture sector commodity import program ($9.8 million). In addition, Mozambique will receive 43,000 MT (wheat, butter and cheese) of non-emergency assistance under the 416 Sugar

Quota food program bringing the total food aid to 193,000 MT for FY 1987. There are no "remaining funds."

PROGRESS OF SPECIFIC ECONOMIC REFORM INITIATIVES IN ZAMBIA

Mr. McConnell: Please describe the specific economic reform initiatives that have been undertaken by Zambia. How long have they been in effect and what progress has been made?

Answer: The Government of the Republic of Zambia (GRZ) has instituted major economic reforms in its trade and payments system, almost total elimination of consumer and producer price controls, improvement of monetary and interest rate policy, and increased independence and the ability of parastatals to respond to market forces. Many of the major economic reforms began in early 1983. A crawling peg flexible exchange rate policy was introduced, interest rates were decontrolled and a Treasury auction of government bills was instituted; consumer price controls with the exception of maize meal and several other products were removed; producer prices, with the exception of fertilizer prices, were established at import parity levels that were deemed adequate to provide incentives; and fiscal policy was tightened to reduce the budget deficit.

A combination of decline in export earnings in 1985 and some relaxation in financial policies acted to exacerbate Zambia's fiscal and external payments problems. In October 1985, the GRZ established a weekly foreign exchange auction to allow market determination of the Kwacha exchange rate. The rapid devaluation of the Kwacha (from Kw 2.20 = $1.00 to the Kw 10-15 range in late 1985) did contribute to a price inflation, but the overall impact of the reform package on the economy has been quite favorable. Agricultural output has increased significantly over the past three years, in part due to favorable weather and in part due to favorable producer prices. In 1986, Zambia produced a surplus of maize over and beyond domestic requirements. Industrial output increased by over 25% in 1986 and it appeared that the decline in GNP had been arrested.

In December 1986, the GRZ decided to remove a major consumer subsidy on one maize product -- breakfast meal -- and to shift the subsidy payments on another maize product, roller meal, from the government marketing board to the millers. These adjustments, however, were poorly planned and implemented. As a result, suppliers did not have adequate time to react and shortages of processed maize developed. The result was maize riots and serious political difficulties for the GRZ. The GRZ quickly reversed its policy on maize meal pricing. In January 1987, the GRZ also decided to revise the foreign exchange auction system. The weekly auction was temporarily stopped and this led to donor suspension of foreign exchange assistance.

A new agreement was reached with the IMF/IBRD in mid-March 1987. The weekly foreign exchange auction was resumed on March 28, with minor changes from the original concept, and, as a result, donor assistance will be forthcoming and the important aspect of the reform process will proceed.

ECONOMIC REFORM INITIATIVES IN ZAIRE

Mr. McConnell: Please describe the specific economic reform measures that have been undertaken by Zaire. How long have they been in effect and what progress has been made?

Answer: Since 1982, Zaire has implemented some of the most sweeping economic reform measures in Africa. Principally in 1982, price controls were removed from most agricultural crops. Parastatal divestiture began in the 1970s: all but two agricultural marketing parastatals had been eliminated by 1986. In the 1983-84 period Zaire established a competitive foreign exchange market, through which most foreign exchange is allocated, and liberalized foreign exchange controls and the trading system as a whole. Most interest rates had been decontrolled by 1985. Price controls on most manufactured goods had been eliminated by 1986. The government since 1982 has implemented fiscal and monetary policies designed to rein in budget deficits and inflation.

These measures are beginning to show positive, although in some cases uneven, results. Elimination of price controls in the food crops sector led to an excellent initial response in production; this was mitigated by slow dissemination of pricing information to farmers and mobilization of crop purchasing efforts. In the industrial crops and livestock sectors, initial responses to price incentives were less than had been expected, partly due to simultaneous removal of duties on food imports. Further development is hampered by severe infrastructural and institutional constraints.

Introduction of a competitive foreign exchange market has allowed Zaire's currency to depreciate significantly in real terms since 1983. Although exports recovered well in 1983 and 1984, export performance in 1985 and 1986 was disappointing, reflecting partly the effect of the continuing slide in copper and cobalt prices. The Government of Zaire remains committed to using a market-determined foreign exchange system, however, in order to encourage export growth.

Zaire's manufacturing sector is almost entirely owned by the private sector, but its share of GDP, at 5%, is among the lowest in Africa. Nearly all of the economic policy changes enacted since 1982 have benefitted this sector, especially liberalization of imports, which allowed firms to begin reconstituting their stocks; and elimination of price controls, which provided them added incentives to produce. Some sectors (like textiles) have run into difficulties as a result of declining barriers to foreign competition, however.

The government's fiscal policies have succeeded in reducing the budget deficit in proportion to GDP from 6.3 percent to 1.2 percent since 1982. Government personnel rolls were reduced from 395,000 to 245,000 between 1982 and 1984. Money supply growth has been reduced from 65% per year in 1982 to 26% last year. Substantial increases in civil service salaries late in 1986 are likely to erode some of the progress being made on the inflation front, however.

TANZANIA: ECONOMIC REFORMS

Senator McConnell: Please describe the specific reform initiatives that have been undertaken by Tanzania. How long have they been in effect and what progress has been made?

Mr. McPherson: Tanzania's reform efforts trace back to the period 1982-84, over which the country implemented a number of reforms, including: (a) depreciation of the currency, (b) increase in agriculture produce prices, (c) a cessation of the government grain purchasing monopoly, (d) termination of government handling of export commodities from farm gate to export sale, (e) reduction of subsidies, (f) a freeze on hiring of civil servants, (g) dissolution of several inefficient parastatals, and (h) liberalization of foreign exchange controls.

While some backsliding was in evidence in 1985, Tanzania renewed the commitment to reform with the announcement in June 1986 of the Economic Recovery Program (ERP). An IMF stand-by arrangement was concluded in August 1986 and a World Bank Multisector Rehabilitation Credit in November 1986. A Paris Club debt rescheduling agreement also was reached in September 1986.

The ERP is ambitious and far-reaching and constitutes an appropriate response to the country's severe economic difficulties, including debt servicing. The specific objectives of the ERP are: (a) an increase in the output of food and export crops through the provision of economic incentives, (b) allocation of investment resources to rehabilitation of physical infrastructure, (c) an expansion of capacity utilization in industry, and (d) the pursuit of appropriate economic stabilization measures in the area of fiscal, monetary, and trade policies. Implementation of economic policy reforms is now occurring across a wide spectrum, including (a) adoption of a realistic exchange rate, (b) further liberalization of exchange controls, (c) increases in producer prices for export crops, (d) elimination of consumer subsidies for petroleum products, (e) limits on the overall budget deficit through implementation of various new revenue measures, (f) ceilings on domestic credit expansion, net bank credit to the government, and credit expansion to marketing boards, (g) movement toward positive real interest rates, (h) imposition of constraints on medium-term non-concessional borrowing by the government, (i) reduction of existing government external arrears by $50 million on an annual basis, and (j) rationalization of parastatal enterprise.

It is too early to assess the impact of the ERP. Implementation of the program has just commenced. However, if the ERP is faithfully implemented, over the medium term the Tanzanian economy is expected to attain positive growth in per capita income, a sustainable external payments position, an acceptably low rate of inflation, and restored levels of economic and social infrastructure.

HUMAN RIGHTS IN ZIMBABWE

Senator McConnell: How will $73 million in aid contribute to an improvement in Zimbabwe's human rights record?

Answer: The funding requested for the regional program in FY-88 is intended to support regional transportation, policy reform and trade and investment. While Zimbabwe is not expected to be the primary beneficiary of any of these programs, it would benefit from any increase in trade and investment in the region.

While Zimbabwe is not free of human rights problems, as the 1986 Human Rights Report indicates, the human rights climate in Zimbabwe has steadily improved over the last year. The growth of a middle class in Zimbabwe appears to be effective in ensuring improvement in the human rights situation over time.

Mr. McConnell: Please describe in detail the programs that will be initiated by SADCC with the $12 million requested?

ANSWER: The FY 1988 $12 million in the core budget for Southern Africa Regional is currently programmed to continue to support the transport sector. These funds will support the Dar es Salaam port rehabilitation and equipment purchase and repair of the port's lighter wharf.

Mr. McConnell: Please describe how the $12 million for development of the Dar es Salaam railroad will be spent. For example, are you refurbishing railway cars or the line itself?

ANSWER: The $12.0 million proposed in FY 1988 is to purchase new floating craft (lighters) - $3.5 million, and cargo handling equipment - $4.5 million both for the Dar es Salaam port. In addition, $4.0 million is proposed to purchase rolling stock (rail cars) for Botswana rails. Nothing has been proposed for rail line rehabilitation.

Mr. McConnell: Will the $73 million requested for the Southern Africa Initiative benefit Angola? Will any other funds requested by A.I.D. serve to improve the economic infrastructure in Angola?

ANSWER: None of the A.I.D. funds requested in the core budget ($16 million) or the initiative ($57 million) are for direct investment in Angola. A.I.D. does not plan to nor has it requested "any other funds" to improve the economic infrastructure in Angola.

The U.S. is prohibited by statute from providing direct assistance to Angola. The prohibition is contained in the annual appropriations legislation (currently section 512 of the FY 1987 Continuing Resolution), which states that:

> "None of the funds appropriated or otherwise made available pursuant to this Act shall be obligated or expended to finance directly any assistance or reparation to Angola, ..."

RESPONSES OF WITNESSES TO QUESTIONS ASKED BY COMMITTEE

EL SALVADOR EARTHQUAKE DISASTER ASSISTANCE

Question: The Administration's supplemental request for fiscal year 1987 includes $100 million in ESF to assist El Salvador in addressing its long-term earthquake reconstruction needs. How much money is being sought for this purpose in fiscal year 1988? What is the total long-term need for disaster assistance for El Salvador?

Answer: Reconstruction costs are estimated in excess of $1 billion, and the work may take four to five years. The Government of El Salvador is saddled with the costs of a seven-year war and the need to provide

social services to the poor majority in the countryside. A.I.D. is urging the international donor community to commit some $300-$400 million in reconstruction assistance, including the $50 million Congress appropriated in Disaster Assistance and the $100 million supplemental request in FY 1987. This could mean a resource gap of over $500 million to finance the balance of the five-year program.

In FY 1988, and until FY 1991, we expect there will be a continuing need for assistance in housing and small business reconstruction, and for social infrastructure such as schools and health facilities. A.I.D. will continue to encourage the donor community to increase its contributions. A.I.D. funding in FY 1988 and beyond will depend to a large extent on the level of appropriated funds, contributions from other donors, Salvadoran absorptive capacity and its performance.

U.S. RESPONSE TO EARTHQUAKE EMERGENCY

Question: What do you estimate to be the disaster assistance need for Ecuador following last week's earthquake leaving some 300 dead, and causing indefinite suspension of oil exports?

Answer: We have responded rapidly to the March 5-6 earthquakes in Ecuador with relief assistance. A.I.D.'s Office of Disaster Assistance (OFDA) provided 500 6-person tents and 5,000 blankets, most of which arrived in Quito less than 24 hours after the GOE request. On March 8, a Sanitary Engineer from USAID/Ecuador began providing technical assistance in repairing the potable water system in the disaster area. U.S. Army Engineers are making assessments of the only two roads within the damage area, to assist us in determining if A.I.D. assistance will be needed for road repairs. OFDA is prepared to finance Bailey bridges for these roads. Two OFDA technicians arrived in Ecuador on March 10; on their recommendation, OFDA financed plastic sheeting for housing for some 12,000 people. A.I.D. assistance through OFDA may well total over $2 million. Important as this assistance is, however, this will do little to meet the basic economic damage to the economy from the earthquake.

A.I.D. is working with other donors to determine what we may do for longer-term reconstruction. The IBRD may cover the oil pipeline reconstruction and the Inter-American Development Bank is considering associated road reconstruction needs. Assistance from Venezuela should be adequate to meet domestic fuel requirements for the next two months, but a larger oil swap arrangement, or balance-of-payments assistance, will be needed to cover normal earnings from petroleum exports. We are also reviewing the reprogramming of existing A.I.D. funds for Ecuador along with the provision of some P.L. 480 resources and have decided to reprogram at least $5 million from within Ecuador. A final determination of additional A.I.D. assistance will depend upon the level and areas of support from other donors and a specific proposal from the Government of Ecuador.

OPERATING EXPENSES CHARGED TO PROGRAM FUNDS

Question: As you indicate in your statement, due to funding shortages in the operating expenses account, Congress authorized A.I.D. to charge many overseas expenses to program accounts. What dollar amount of such overseas expenses were charged to program accounts in fiscal years 1986 and 1987?

Answer: During FY 1986 A.I.D. charged $17.1 million of overseas operating expense activities to program accounts. During FY 1987 the Agency is estimating that $39.3 million of these expenses will be funded from the program accounts.

ISRAEL

Question: You give Israel as an example of a country in which significant progress has been made in adopting policy and institutional changes necessary for economic growth. While it is true that Israel has had phenomenal success in reigning in inflation and building its foreign currency reserves, is it not also true that the success has been possible largely because of a $1.5 billion "safety net" provided by the U.S., the final $750 million of which was allocated in September, 1986?

What are the prospects for continued success absent that kind of a cushion designed to offset the effects of the Israeli austerity programs?

Answer: It is correct that Israel has made real progress in reducing inflation from three digit rates to 20 percent in 1986. The $1.5 billion in U.S. supplemental emergency assistance was an important factor in supporting the July 1985 stabilization program that led to the decline in inflation.

Despite this progress Israel needs to do more to reduce inflation to levels prevailing in North America and Europe. This would entail further cuts in government spending to contain demand. Official reserves now amount to approximately $4.2 billion, sufficient cushion to pursue structural reforms to reduce inflation and renew growth.

Levels of ARDN Funding

Question: On page 13 of your statement, you mention the downward trend in appropriations for agricultural assistance. Isn't it true that up until fiscal year 1986, Congress appropriated about the same or more than the Administration requested for this account?

Answer: No. Since 1975, with the exception of two years, the Congress provided less than we requested each year. Only in 1983 and 1985 did the Congress provide more than we requested. In any case, my remarks refer to the most recent trend (1986 and 1987) where we have not only received significantly less than our request but the amounts received have declined from year-to-year. The following table illustrates my point:

ARDN Account

Fiscal Year	A.I.D. Request	Cong. Approp.
1975	546.3	300.0
76 T.Q.	151.0	112.5
1976	582.3	426.6
1977	636.1	505.0
1978	587.0	515.0
1979	673.2	605.0
1980	715.4	605.0
1981	729.3	635.0
1982	727.8	700.0
1983	700.0	705.0
1984	725.2	725.1
1985	725.6	755.6
1986	797.4	669.9
1987	709.9	639.6

COST SHARING

Question: One of the legislative changes you seek would authorize the President on a case-by-case basis, with respect to all developing countries, to waive the requirement that each recipient country provide at least 25 percent of program costs. Existing law authorizes such a waiver only for relatively least developed countries. In how many cases has the President exercised the waiver with respect to relatively least developed countries? With which developing countries in mind is this new authority proposed?

Answer: There are 36 relatively least developed countries. Of the 36, A.I.D. provides bilateral assistance to 33 of them. For these A.I.D. proposes a total program of about $380 million in Fiscal Year 1988 provided through over 130 separate projects or activities. Waivers of the requirement that these least developed recipient countries provide at least 25 percent of the cost of each activity are not routine. Unless exceptions are well warranted, A.I.D. expects these countries to contribute a fair share of project costs.

In the Asia Near East Region, three relatively least developed countries receive bilateral U.S. economic assistance. Of the eleven new activities approved over the past few years for Bangladesh, only three were allowed a waiver of the 25 percent contribution. In Nepal, the waiver was granted for four of ten new activities. And in Yemen, three new activities began with only one permitting a waiver.

In the Latin America - Caribbean region only Haiti is categorized as a relatively least developed country. There, eight programs began in FY 1986. There were no waivers of the required contribution.

In Africa, although the preponderance of least developed countries are found there, the waiver was withheld more often than not. Of the thirteen recent project starts in African relatively least developed countries, a waiver of the 25 percent contribution was permitted in only four cases.

If the waiver authority is expanded to cover A.I.D.

recipient countries slightly better off than the relatively least developed, only about 20 more, the new authority will be exercised as carefully and it is expected even less frequently than has been our practice for the poorest nations. A.I.D. believes that, except in very special circumstances, a recipient country contribution of 25 percent of the cost of a program is a necessary demonstration of real support and interest in the help we extend.

There will be instances, however, where that contribution is either not possible or difficult to realistically measure. Participant training programs, for some countries, are an example. Unless a government employed trainee sent to the U.S. is kept on salary, in which case the 25 percent requirement probably would be met, the contribution would be in the form of foreign exchange. For most countries we assist, and although the 25 percent dollar payment for each participant may appear relatively insignificant, the foreign exchange for the contribution either won't be available or so administratively difficult to extract that A.I.D. could not provide the needed U.S. training.

Again, however, it will be the rare occasion when A.I.D. will waive the requirement for a real and significant contribution.

Growth in ESF

Question: The real growth in economic assistance these past years has been in ESF. How do you see the relationship between ESF and development assistance in our foreign aid program? How do you go about determining the level of each for a given receipient nation each year?

Answer: The fact is that there has been a steady balance between DA and ESF over most of the last six years. With the exception of FY 1985, when Congress enacted a large ESF supplemental, since FY 1982, DA has remained at about 38% of economic assistance.

Economic Assistance (Billions)

	81 Act.	82 Act.	83 Act.	84 Act.	85 Act.	86 Act.	87 Est.	88 Req.
DA	1.7	1.8	1.8	2.0	2.5	2.1	2.1	2.2
ESF	2.1	2.9	2.9	3.2	6.2	3.8	3.6	3.6
Total	3.8	4.7	4.7	5.2	8.7	5.9	5.7	5.8
Percentages								
DA	45%	38%	38%	38%	29%	36%	37%	38%
ESF	55%	62%	62%	62%	71%	64%	63%	62%
Total	100%	100%	100%	100%	100%	100%	100%	100%

The decision to use DA or ESF resources in a given country depends largely on: (1) the rationale for U.S. assistance (developmental, humanitarian, or security) and, (2) the type of program activity needed. In some countries, such as those related to the Middle East peace process, and base rights countries such as Turkey Spain, and Portugal, the programs are entirely ESF because of the overriding political and strategic nature of the U.S. interest.

Similarly, other country programs consist entirely of DA where the rationale for assistance is fundamentally developmental. There are a number of countries where U.S. assistance reflects a multiplicity of objectives which have both DA and ESF.

The FY 1988 request reflects a balance within present funding constraints between meeting short-term needs through quick disbursing ESF assistance and longer-range development problems.

Project assistance tackles longer-term developmental problems which require sustained efforts. Effective institution building, technology transfer, and private sector development involve both technical assistance and training which require time. Activities which improve health, reduce population growth rates, and increase literacy, for example, involve social change which of necessity comes gradually. Almost all of DA and about 30% of ESF is used for project assistance.

Quick disbursing forms of assistance, e.g., ESF cash grants and commodity import programs (CIPs), are essential for many countries which are experiencing economic instability, and where U.S. security interests are affected. Many, if not most, aid recipients have debt servicing problems and foreign exchange cash flow problems which require careful management. Cash transfers are the most efficient means of introducing foreign exchange into an economy. They provide for controlled infusion of foreign exchange, in the form of dollars into these economies, helping to create economic, and thus political, stability. The timing of disbursements factors in, among other things, the need for securing and maintaining a realistic exchange rate, the need for the country -- including private sector entities -- to continue to meet foreign debt obligations, and the need to maintain adequate reserve levels. In addition, disbursement of foreign exchange is often used to leverage significant macroeconomic policy reforms and thus make more effective the project assistance we are providing.

The determination of the country levels and the country balance between DA and ESF resources follows from the program planning process and the appropriation process. Based on approved Country Development Strategy Statements for each country, A.I.D. field missions/bureaus prepare annual budget submissions which are reviewed by senior agency management. The A.I.D. budget is intergrated with the rest of the International Affairs budget as a part of the President's overall Federal budget request. Upon enacment of the Appropriations Act, or a Continuing Resolution, reductions from the request level are passed back to the bureau programs. Through a process of consultation and negotiation including review by Congressional committees, the Administrator approves an Operational Year Budget (OYB), for the Agency. Adjustments in country levels may be made during the budget year as conditions change and new requirements come to light.

OPERATING EXPENSES

Question: Constraints on overall Federal spending have kept A.I.D.'s funding levels somewhat restrained over the past three fiscal years. However, operating expenses seem to be escalating; indeed, you have requested a $7.6 million supplemental for fiscal year 1987 for additional operating expenses. What justification is there for increased operating expenses at a time of overall budget restraint?

Answer: The FY 1987 supplemental requested for operating expenses is required to cover the cost of the new Federal Employee's Retirement System (FERS) and half of the January 1987 Federal pay raise. While the cost of the Federal pay raise is a net increase in cost to the government, the $5.5 million requested for FERS should be offset in large part by reductions in funding required under the separate retirement appropriations provided to the Office of Personnel Management for Civil Service employees and to A.I.D. for Foreign Service employees.

The operating expense budget for FY 1987 is facing many mandatory increases in costs over 1986, although the funding level currently available is the same as last year. Among the costs which A.I.D. will have to absorb are increased rents and utilities, ($2.5 million in Washington and $2.1 million overseas), increased costs for salaries and benefits of foreign national employees ($2.8 million), and the increased cost of general operations overseas in light of inflation combined with the decline in the value of the dollar.

The Agency is very concerned about the total cost of the Operating Expense budget and has made every effort to absorb increased costs through canceling or deferring activities where possible. We are unable, however, to absorb the increased costs represented by this supplemental appropriation request without adversely affecting the overall operations of the Agency.

POLICY REFORMS

Question: Cash transfers as a form of giving aid have been promoted as providing leverage for structual change. How has the leverage been used, and how has it worked? What policy reforms that the United States considered important have been achieved?

Answer: Our ESF cash transfers have indeed been used to promote structural change in recipient country economic policies. Such change, whether it be targeted at short term improvement in the balance of payments or, as is usually the case, on long term adjustments in the composition of output and exports, is included as a condition in the loan agreement between the U.S. Government and the recipient country. These conditions are stated in the form of covenants and "conditions precedent" or "CP's." In a covenant the host government agrees to take a particular action relating to economic policy reform. A CP is more stringent, however. Often, cash transfers are divided into two or more disbursements, or tranches, and each can have several CP's that must be satisfied before the U.S. A.I.D. authorizes disbursement of that tranche.

Numerous cases can be stated as examples where ESF programs have levered important policy changes:

-- Guatemala: cash transfers have been used over the past two years to support the new democratic government that had to immediately address economic reforms.

- The exchange rate system was simplified;
- the public sector deficit was reduced;
- the tax administration was improved;
- price controls were lifted; regulatory constraints to exports and investments were reduced.

-- Haiti: ESF cash transfers provided a tool which has enabled the U.S. to provide a quick response to a new democratic government which wished to move quickly to put its financial house in order and to reestablish a market-oriented development program.

The public sector deficit was reduced and several parastatals were eliminated.

-- Costa Rica: During 1982-86, important reforms averted a serious financial crisis:

- A flexible exchange rate system was introduced;
- the public sector deficit was cut in half;
- the private sector banks were given access to important lines of credit from the central bank.

-- Bolivia: During the past two years, A.I.D. has found cash transfers to be an indispensable instrument in assisting the Bolivian Government to restore financial stability in the country.

- The government immediately freed the exchange rate;
- controls were applied to the public sector;
- large portions of the state mining company were closed.

-- Senegal: cash transfer and associated local currency funds have supported extensive economic policy reforms liberalizing agricultural markets, reducing fiscal deficits, and rationalizing the tax system all complementing DA funded institutional programs.

ESF CASH TRANSFER OVERSIGHT/ACCOUNTABILITY

Question: What kind of oversight does A.I.D. have on cash transfers? Do you know for what purposes the funds are spent? How are accounting systems established for monitoring ESF when used as a cash transfer?

Answer: A.I.D. is implementing the Congressional mandate that ESF cash transfers of $5 million or more must establish separate ESF dollar and generated local currency accounts. Guidance has been given to the field. Implementing rules require that:

- Disposition from the separate accounts be subject to explicit agreement on acceptable uses of the dollars and local currency.

- Appropriate uses for the dollars are financing of eligible imports, servicing debt, and supporting "free market" currency auction systems. More specific limits will be applied when a potential for controversial use exists, as may be the case in some countries.

At a minimum, no dollars may be used for military or paramilitary purposes.

- Local currency uses must be either for defined projects or activities or coherent sector programs judged to be developmentally sound. Misuse will trigger redeposit.

- Recipient countries will have to report on uses and provide backup documentation as requested.

- Interest earned on deposits is to be jointly programmed and used as if it were principal.

A.I.D. shares Congress' concern that ESF cash transfer dollars and local currency be used appropriately, and will be continually reviewing implementation to ensure consistency with legislative intent. The implementing rules enable us to better monitor dollar uses and, at the same time, preserve the powerful capabilities of cash transfers as flexible assistance instruments to support economic reform and advance United States strategic interests.

CORRUPTION

Question: Periodically there are allegations about the diversion of U.S. security assistance by corrupt governments (the Marcos government was a prime example). What specific tools do you employ to ensure against misuse or diversion of ESF?

Answer: A variety of measures and procedures help assure that ESF funds are not diverted for unintended uses. These include:

-Comprehensive and detailed written agreements between the United States and recipient countries;

-A comprehensive system of Vulnerability Assessments and Internal Control Reviews, for identifying potential weaknesses before diversions occur;

-Well-defined written procedures and definitions for allowable expenditures;

-Direct payments by A.I.D. to contractors on ESF projects;

-Multiple verifications of the legitimacy of expenditure voucher claims;

-Direct participation of A.I.D. staff in programming decisions for use of local currencies provided as a result of cash transfers and commodity import programs;

-Frequent review by A.I.D. staff of host government and contractor documentation and reports on ESF-related resources;

-Monitoring by A.I.D. staff of deposits to and withdrawals from special local currency accounts - similar measures are now being instituted for all dollar cash transfers in countries receiving more than $5 million per annum after 2/1/87; and

-Frequent project site visits, commodity import receipt checks, audits, evaluations, and review of records by A.I.D. staff, independent auditors and other private evaluators.

Additional measures are being, or have been taken to protect funds from misuse where there have been allegations of misuse in the past

-In Haiti, at the request of the government, A.I.D. and contract staff are involved in all stages of ESF cash transfers, projects and local currency programming.

-In El Salvador, the comprehensive separate account and price checking mechanisms in place since 1984 have ensured that ESF resources have not been diverted for luxury goods or other unauthorized procurements.

-In Liberia, A.I.D. will be supporting the stationing of 17 experts directly in government ministries to ensure objective budgeting, accountability and financial planning and management standards.

AFGHANISTAN

Question . Two years ago Congress earmarked $15 million in ESF for humanitarian aid to the Afghan people; subsequently this earmark increased to $30 million of combined development assistance and ESF. How has this aid been implemented?

Answer: In fiscal year 1986, we obligated $14.8 million for a variety of projects. (Due to Congressionally mandated budget cuts, the full earmark was not available for obligations.) Our funds were used to finance grants to European and American private voluntary agencies for health, food aid, education, and agricultural programs. In 1986, we also financed the start-up of three projects in health, education, and commodity support that, with the assistance of U.S. organizations, are being administered by the Afghan seven-party Alliance. In 1987 we are granting more funds to PVOs, are increasing our financing for the Alliance-based projects, and are starting a new project in agricultural production with the Alliance.

Economic Reform

Question: Last year's Continuing Resolution (PL 99-591) provides authority for the cash transfer of additional ESF to Egypt only in Support of "a comprehensive structural economic reform program" by Egypt. Does Egypt currently meet this test? If not, why not?

Answer: Egypt does not currently have in place a comprehensive economic reform program. The Government of Egypt and the IMF have been negotiating a comprehensive program for some time, with particularly intensive talks over the past five months. We welcome these discussions and hope for an early successful conclusion. Consistent with the legislation, we have made clear to the Egyptian government that we cannot provide cash assistance beyond the $115 million recently disbursed until it begins implementing a comprehensive structural reform program acceptable to the international financial community. We expect an agreement with the IMF will lead to reform implementation that will justify additional cash support.

Cash Transfer

Question: This year $115 million has been obligated to Egypt as a cash grant transfer. Was this transfer tied to specific economic policy reforms to be undertaken by the Egyptian Government? If so, what were they?

Answer: This year's $115 million cash transfer was provided in light of recent reform measures, including a 20 percent increase in cotton procurement prices, elimination of some agricultural production quotas and an expanded private sector role in the distribution system, and permission to public sector companies to purchase foreign exchange on the free market. The cash transfer will also help bridge an immediate short-term financing gap while the GOE completes negotiations with the IMF on a comprehensive economic reform program. The comprehensive program would permit the GOE to pursue a multilateral debt rescheduling and to begin to reverse its deteriorating balance of payments.

ESF CASH TRANSFERS

Question: What percentage of the (FY 1988) ESF is slated for cash transfers? Is this an increase over last year, both in absolute dollars and as a percentage of the total?

Answer: Of the FY 1987 New Obligational Authority (NOA), $2,289.7 million is estimated to be cash transfer. This is 64.5% of the total NOA. In FY 1988, the amount requested for cash transfer is up $16.6 million, to $2,306.3 million, but is down slightly, to 64.3% as a share of the total request.

MONITORING OF ASSISTANCE TO LIBERIA

Question: Liberia. In particular there have been allegations concerning Liberia. What is your assessment of the situation there? What specific steps have been taken to improve monitoring of aid monies in Liberia?

Answer: Our assessment of the economic situation in Liberia is that it is extremely serious and getting worse. A.I.D. Administrator Peter McPherson led an A.I.D.-State economic mission to Liberia February 8-10 to work with the Government of Liberia (GOL) in seeking solutions to some of its economic problems. A major result of the discussions included agreement on a series of important economic reforms to be carried out by the GOL. It was also agreed that A.I.D. would seek to provide 17 Operational Experts to work in partnership with Liberian officials in key financial positions within the Government of

Liberia. These experts, who will have countersigning authority in a number of revenue and expenditure areas, will assist in setting up mechanisms and assuring compliance with the reform measures for the government as a whole. They will also constitute one more significant control measure for U.S. Government funds.

Our assessment of the conduct of and controls on the assistance program to Liberia is that they are very good at present. The A.I.D. Mission there has continually revised and tightened controls over use and accountability of assistance funds. A.I.D. audits, regularly scheduled project evaluations, and constant monitoring of programs by A.I.D. personnel have been responsible for surfacing problems and have resulted in changes in program composition and improved accounting procedures. This is an ongoing process.

Long Term Development

Question: Currently 65 percent of ESF is transferred as a straight cash grant to recipient nations. Does the increasing use of cash transfers reflect a policy decision that quick cash infusions are preferable to long term development projects in the Third World?

Answer: The use of the cash transfer is not a substitute for long term development projects. Rather, it reinforces and complements project assistance. The U.S. foreign assistance program requires a variety of instruments to allow us to address a variety of problems in the developing world. The cash transfer has given our ESF program the ability to respond quickly and efficiently to the entire range of economic needs of A.I.D. recipient countries.

Many, if not most, A.I.D. recipient countries among the developing world have experienced shortfalls in foreign exchange earnings due to declines in their export prices. Unlike commodity import programs or project assistance that provide hard currency resources only as the project itself unfolds, cash transfers can provide fast disbursing financial assistance to countries in need of immediate balance of payments support. This has been vital to those countries, such as Haiti and Guatemala, making a transition to democratic government.

The cash transfer not only provides immediate balance of payments assistance, but through local currency programs and policy dialogue it promotes long term development. In many cases, local currency generations are utilized in order to strengthen whole sectors of economic activity in the host country. Such program assistance often complements project assistance funded from our DA accounts.

Cash transfers provide the U.S. Government with a tool to effect policy reform in host countries. Disbursements are often conditioned on specified host country actions to promote short term stabilization as well as on actions to liberalize the economy to bring about equitable economic development. Such actions usually focus on inappropriate policies in the areas of domestic interest rate regimes, exchange rates and public sector spending, reforms that complement and strengthen our DA program.

Question: Private Sector Initiative. The Administration seeks to place further emphasis on private sector initiatives. How do such programs relate to the more traditional long-term development projects A.I.D. continues to oversee?

Answer: A.I.D.'s emphasis on the private sector has served to complement and strengthen, rather than replace, the traditional activities that meet the basic human needs of LDCs, such as agriculture research. In addition to its role as a principal generator of income and employment, the private sector is seen as an especially effective *means* of delivering a wide range of development services. The beneficiary or target group of A.I.D.'s private sector initiative is the poor majority in developing countries.

In a time of decreasing availability of aid funds and an increased interest in achieving self-sustaining development impact, the initiative offers a cost-effective alternative mechanism for achieving cross-sectoral development impacts in developing countries. A.I.D.'s intent is to develop the most appropriate and effective balance between use of public and private sector mechanisms.

The private sector approach in the provision of development assistance offers the potential for self-sustaining long-term economic growth with equity and the development of permanent private sector institutions. It implies, over time, a decreased dependency on outside donor assistance and increased broad-based economic growth that will allow recipient country populations to meet their own basic human needs and social development through increased reliance on the individual.

More specifically, the private sector initiative meets the needs of the poor majority through a variety of approaches. First, we utilize policy reform to correct distortions that artificially encourage the substitution of capital for labor. Second, the primary beneficiaries of our private enterprise projects are micro- or small-scale enterprises or poor farmers. Employment generation and economic growth with equity are major aspects of those projects. Finally, A.I.D. has been channeling the delivery of aid through the private sector (including private and voluntary organizations, private enterprises and cooperatives). Assistance provided in health care, family planning services, education, and agricultural extension is provided, to a great extent, by the private sector. Many of these PVOs are better able to meet the needs of the poor majority than other delivery mechanisms.

Question: In 1983 Congress authorized, at the Administration's request, a private sector revolving fund. What has been the experience with this fund? What specific achievements can be attributed to the fund.

Answer: The Bureau for Private Enterprise was established to design and implement innovative private enterprise projects which would not only provide their own direct benefits but would also serve as prototypes for projects to be initiated by the rest of the Agency. The Private Sector Revolving Fund has proved to be a successful vehicle for accomplishing this goal.

Building upon the Bureau's early successes with loans to the Kenya Commercial Bank (over 90 percent of the loans to sub-borrowers were made to small rural businesses) and Siam Commercial

Bank, many of the Revolving Fund loans have realized great benefit. For example, the Revolving Fund loan to the Far East Bank and Trust Company in the Philippines has made funds available to private small and medium sized businesses, some of which are in the health sector. The loan to Bank Niaga in Indonesia has enabled small Indonesian private enterprises to provide much-needed health and sanitation services. Small farms and manufacturing firms in Thailand have been able to use program funds to expand facilities and, in some cases, for the "start-up" of new businesses. Revolving Fund loans in the Dominican Republic and Ecuador have provided resources to the agri-business sector.

More specifically, during recent evaluative studies, it was found that over 90 percent of the Kenya Commercial Bank loans to sub-borrowers were made to small rural businesses located outside of Nairobi, Mombasa and Kisumu. It was also found that in certain instances there are already indications of employment impact. For example, through the loan to WAFABank in Morocco, one sub-borrower has been able to increase employment by 50 people in less than a year. Of the 160 people the firm now employs, 30 percent are women.

The Revolving Fund has continued to support economic growth with equity, while meeting the basic human needs of less developed countries. Innovative projects pursued in 1986 include a loan to the Serum Institute of India, which is designed to expand facilities for the manufacture of bacterial vaccines and to establish a new facility for the manufacture of viral A measles vaccine; and a loan to three Philippine banks to provide credit to small- and medium-sized agricultural enterprises where there exists a serious credit shortage.

Through project development and design within the Revolving Fund, opportunities for co-financing with local financial agencies have arisen whereby the $50 million of obligated funds have funded in excess of $130 million in development loans. Opportunities for increased collaboration with USAID Missions have also become apparent. Missions have participated and have requested the opportunity to participate in new financial ventures in the future; have expressed growing enthusiasm for our program; have requested assistance in developing private enterprise strategies; and have requested assistance in developing micro-lending programs in the West Bank and Mali. In addition, through the credit guarantee program, banks in developing countries are now making loans to smaller businesses than have been traditionally served. This new activity benefits women in development and satisfies basic human needs.

Since its inception in 1983, the Revolving Fund program has grown steadily, both in terms of its portfolio size and in the measure of its ability to realize A.I.D. developmental objectives.

Question: The Bureau for Private Enterprise was created six years ago to focus A.I.D.s attention on the role of the private sector in development. What success has the Bureau had in achieving its mission? Do you see the Bureau staying on as a permanent part of A.I.D.'s structure?

Answer: Private enterprise and a reliance on market forces has always been an important part of the Reagan Administration philosophy. A.I.D. Administrator Peter McPherson acted quickly to move that philosophy into the foreign aid program by creating the Bureau for Private Enterprise. The creation of the Bureau for Private Enterprise was a necessary step to alter the course of development policy in the U.S. foreign aid program toward greater reliance on private enterprise and market forces.

The success of the Bureau in focusing the attention of the Agency on the role of private sector in development can be measured in several ways, but the ultimate test is the adoption by our overseas missions of new attitudes, the use of new programmatic mechanisms by those missions and the concomitant changes in host government policies that lead to market driven, sustainable growth at all levels of society.

The Bureau adopted the role of a laboratory for innovative mechanisms that could be used by our Missions in the delivery of development aid and as an educator both within the Agency and to host government officials and private sector leaders. In that role we have been successful. Through our efforts, the Agency has adopted many programmatic techniques heretofore not used or little known. Some examples are projects involving commercialization of technology and expansion of private financial markets. We are continually striving to develop new techniques to change the delivery mechanisms in the traditional public sector oriented approach, such as the use of contract farming in agribusiness, the adoption of new health financing techniques to promote the private delivery of health care, and innovative uses of PL-480, Title I, Section 208 proceeds to finance private sector growth.

The establishment and operation of the A.I.D. Private Sector Revolving Fund has demonstrated convincingly that A.I.D. can foster growth by using private credit delivery systems and by creating new corporate forms to accumulate and invest capital, and that A.I.D. missions will adopt new methods developed by the Fund and incorporate those methods into their programs. Revolving Fund projects have demonstrated that A.I.D. can provide assistance directly to LDC private enterprises on unsubsidized terms, and that A.I.D. can leverage significant private sector resources for developmentally and commercially sound projects.

PRE has also furthered A.I.D.'s privatization initiative. The successful world-wide privatization conference in February 1986 fueled the fire of demand from A.I.D. Missions for services in policy dialogue, strategy development, eudcational efforts as well as industry- and firm-specific privatization. PRE offers to A.I.D. missions a wide range of expertise to respond to host country needs in the area of privatization.

Internally, A.I.D. attitudes have evolved to the extent that Regional Bureaus now have staff devoted specifically to private sector activities in their regions. A training program for A.I.D. employees entitled "The Role of Private Enterprise in Development" has been instituted successfully. This highly regarded program has thus far trained some 100 employees.

A.I.D.'s strategic planning process now includes specific requirements related to private sector development in each country. The PRE Bureau is leading the way by making available to all missions services in the areas of strategy development, with a focus on host government policies that constrain the growth of the private sector. PRE is continuing an effort to assist missions in mapping the private sector, the identification of contraints and the development of strategies that bring together the government and private sector leaders in a collaborative effort to solve the many problems facing the local businessman.

Bureau efforts have resulted in a fundamental change in the way A.I.D. does business. By 1986, nearly one-half of A.I.D.'s development assistance program was directly or indirectly expended in a way that benefits the private sector.

The private enterprise initiative is spreading rapidly through the agency in large part because the Bureau is providing the focal point necessary to foster new ideas. The rising demand from A.I.D. missions for services is a response to the Bureau's successful effort to create a pool of expertise with our own staff and specialists acquired through contracts. The efficiencies provided by the Bureau's core group of experts would be lost if the Bureau were not kept in place to continue to move the Agency towards finding private sector solutions to development problem at this time.

POLICY REFORM

Question: Economic Policy Reform has been acclaimed as a critical new tool in A.I.D.'s development strategy, especially in Africa. What specific policy changes can you cite that have resulted in major improvements in economic performance for individual countries?

Answer: Economic policy reforms are a principal tool in A.I.D.'s development strategy. While they are not a new tool, they have deserved and have received increasing emphasis in recent years. They affect the whole range of domestic institutions and incentives that shape the character and that determine the rate of economic development, but they are critical for the private sector. The following are country examples of major improvements in economic performance that have followed particular policy changes:

- Allowing private trade and market prices in agricultural markets. Agricultural reforms are of preeminent importance in low-income countries because most of their residents are farmers. Seventy percent of sub-Saharan families are in farming. Over the last three to five years, constraints on private traders have been cut, and markets have again been allowed to determine prices in Bolivia, Ecuador, the Philippines, Zaire, Somalia, Niger, Guinea, Mali and a half dozen other sub-Saharan nations.

The reduction of restrictions on private traders has improved efficiency and raised prices in output markets and has improved timeliness and quality of service in agricultural input markets. These changes have all tended to raise the real incomes of farm families. Food production, independent of changes in the weather, is up substantially since 1983 in Somalia, Malawi, Zambia, Zimbabwi, Zaire, and the Philippines.

- Reductions in currency overvaluations. Overvaluations have been a principal cause of extreme price distortions in many developing nations. Recent devaluations have been large in Zaire, Zambia, Somalia, Madagascar, Guinea, Ghana and Malawi as well as in Bolivia. The consequent increases in export prices have brought increased production of agricultural export crops and some diversification of farm production. The increased incomes of farm families from devaluations and from liberalization of internal markets have stimulated local production of products farm families buy.

  Recent field researchers in Somalia and in Zambia have reported extensive evidence of these effects.

- Closing and divesting parastatals. This tends to be among the most slow paced reforms. But dozens of parastatals have been shut down in Guinea, and many have been closed or shrunk or are being divested in Niger, Senegal, Togo, Somalia, Belize, Costa Rica, and Honduras. These reforms have been particularly important in opening agricultural input and output markets to small and large traders and processors who, with unrestricted access, tend to deliver efficiency, competitive prices and growth. These results are clearly evident in all the countries cited here.

INTERNATIONAL ORGANIZATIONS AND PROGRAMS

Question: The Administration's request for International Organizations and Programs is a reduction of $43.4 million, or an 18 percent cut from current funding. Reductions for specific programs under the account, UNICEF and UNEP for example, are far more severe. UNEP is slated for a 29.7 percent cut; UNICEF, a 41 percent cut. What would be the impact of reductions of these magnitudes?

Answer: UNICEF: It is true that the FY 1988 request for $30.0 million is considerably less than our FY 1987 request, although substantially higher than the FY 1986 and FY 1985 requests for $27.0 million. It is an unfortunate fact that the Administration has had to make difficult budgetary decisions in this era of increasing fiscal austerity. UNICEF is not exempt from this budget cutting process, although this request maintains the U.S. as one of UNICEF's largest donors.

A.I.D. provides additional funds to UNICEF outside the IO&P account. Last year we decided not to provide additional central funding for the UNICEF child survival programs but would fund specific activities through our bilateral programs. In FY 1986 we provided about $5 million for and through UNICEF (in Morocco, Mozambique, Nigeria and Sudan) not including our commitment in India to provide $25 million to UNICEF over five years. This year a number of our A.I.D. missions are planning to program funds for UNICEF activities (in Burma, India, Kenya, Madagascar, Nigeria, Philippines, Sudan, Swaziland, Togo and Uganda.) I expect we will meet and more probably exceed the FY 1986 level of funding for child survival activities in FY 1987 and 1988.

Because the U.S. is not alone in facing budgetary constraints, it is possible that UNICEF's resources will not grow and may even decline in 1988. UNICEF began planning in the early 1980s for a potential drop in contributions from the major donors, although there is no question that even the most thoughtful contingency planning cannot completely compensate for a reduction in voluntary contributions.

The U.S. will continue to urge UNICEF to realize administrative economies in order to protect its child survival and primary health care programs. Such economies, it is hoped, will permit UNICEF to preserve momentum in these programs.

UNEP: If the reduced U.S. contribution to UNEP leads to a lowering of the overall amount in the Environment Fund in 1988, we would expect the UNEP Governing Council, at its 1987 meeting, to review program priorities for the 1988/89 biennium. Then important programs for the U.S., such as the International Registry of Potentially Toxic Chemicals and the Global Environmental Monitoring System, which have been assigned high priority, would be called upon to absorb proportionately smaller cuts than lower priority programs and their essential level of activity could be maintained. Lower priority items for UNEP, such as "disarmament and the environment," should be reduced or eliminated. We wish to point out that at this level the U.S. still remains the largest single contributor to the UNEP fund.

SIZE OF AGENCY PIPELINE

Question: According to the figures A.I.D. supplied the committee as of September 30, 1986, there is almost $4 billion in Development Assistance pipeline, and a little over $4 billion in ESF pipeline. Are these figures still accurate? Are there amounts of this pipeline money that could be redirected elsewhere?

Answer: Yes, the pipeline figures cited still approximate the Agency's pipeline.

No. Pipelines result from a conscious management decision on the best way to achieve U.S. objectives. Pipeline represents U.S. funding commitments to host governments involving activities such as: students on long term training in the U.S.; contract teams from U.S. firms or universities; forward funding as leverage for policy dialogue; and commitments to multi-donor programs.

Redirecting funds within the pipeline as a substitution for new budget authority would mean:

- disrupting the implementation of projects;
- reducing participant training;
- interrupting progress of on-going tranche-funded activities;
- sending political signal of reduced U.S. interest.

The Deobligation/Reobligation authority is used as a management tool to allow the agency to redirect funds based on project reviews and savings due to good program management. The total amount of funds projected for deobligation in FY 1987 represent a truly insignificant percentage of the pipeline.

REASONS FOR A.I.D. PIPELINE

Question: What are the reasons for the build up of aid pipelines? Do the existence of pipelines indicate that a program is in trouble?

Answer: The term pipeline normally describes the unexpended balance of the obligated funds for a specific project or program. Analysis of the pipeline is often used as a measure of project or program performance. In this context, relatively small or decreasing pipelines are considered positive indicators and large or increasing pipelines are viewed negatively. In reality, pipeline provides a one dimensional view of the portfolio. A pipeline is inherent in any program where the obligation exceeds and precedes the expenditure. Project and program planning reflects this implicit pipeline which is a function of: (1) the type(s) of assistance; (2) the financing plan or the amounts and timing of obligations, and (3) the estimated expenditure schedule.

AID assistance can be broadly categorized as: (1) cash transfers, which normally disburse within 2 years; (2) commodity import programs, which normally disburse over 4 years; and (3) project assistance, which normally disburses over 6 years. The mix of assistance in a specific country is a major factor in the size of the country's total assistance pipeline. A country program consisting entirely of project assistance will have a higher pipeline in relation to obligation levels than a country whose program consists of significant non-project assistance activities.

Funds are obligated under a schedule or financing plan. Such plans provide for activities to be either fully or incrementally funded. Given the uncertainty of future funding levels and the need to maintain flexibility, AID often prefers to fully fund or maximize forward funding. There are many good reasons for this, first, many large projects often involve other donors' such as the World Bank. Where other donors resources are involved it is important to be able to ensure that the U.S. contribution will be available to cover our share of the overall project. Technical assistance projects normally involve multi-year commitments by contract teams from U.S. firms and Universities. A pipeline provides the contractors confidence there will be no financial problems during implementation. Third, many country projects involve substantial training, often bring the student to the U.S. for long-term study. Fully funding this activity assures the participant and the host government that the training program can be completed. In short, such forward or life of project funding is intentional, increasing the pipeline as a function of program planning rather than performance and the financing plan takes such planning into account. Thus, a pipeline for a project or country is problematic only to the extent that the pipeline exceeds that which was implicit in the financing plan. However, even if the pipeline is lagging behind the plan, the pipeline is not necessarily excessive. Assumptions and conditions within a host country can and do change. A.I.D. management has in some cases delayed payment of cash transfers to encourage compliance with policy reform objectives or conditions. Individual projects often contain strict conditions precedent to disbursement or covenants, compliance with which can cause considerable delay in disbursements. Except in the case of balance of payment support, attainment of objectives and prudent management represent higher priorities than the rate of expenditure.

Pipeline

Question: What is the status of the Egyptian pipeline? Has it gone up in the last year? Do you intend to use de-ob/re-ob authority to reduce this pipeline this year?

Answer: Egypt's current pipeline is almost $2.3 billion. This is an increase of $100 million over last year due in large measure to unexpected delays in GOE contract signings and construction delays in some large water and wastewater projects during 1986. The Mission believes these problems are resolved and predicts reduction in the pipeline to $2 billion at the end of FY 87 and $1.9 billion in FY 1988. The Mission does intend to use the de-ob/re-ob authority. However, the pipeline is largely made up of necessary commitments to approved activities, including existing construction and technical assistance contracts.

Cost Sharing Requirements

Question: The legislation you have submitted to Congress seeks to broaden the current law's waiver authority for the 25 percent cost sharing requirement from "relatively least developed countries". What would be the impact of the proposed change?

Answer: Although this issue was addressed earlier in the testimony, it is important to restate the reasons for the proposal.

There are 36 relatively least developed countries. Of the 36, A.I.D. provides bilateral assistance to 33 of them. For these A.I.D. proposes a total program of about $380 million in Fiscal Year 1988 provided through over 130 separate projects or activities. Waivers of the requirement that these least developed recipient countries provide at least 25 percent of the cost of each activity are not routine. Unless exceptions are well warranted, A.I.D. expects these countries to contribute a fair share of project costs.

In the Asia Near East Region, three relatively least developed countries receive bilateral U.S. economic assistance. Of the eleven new activities approved over the past few years for Bangladesh, only three were allowed a waiver of the 25 percent contribution. In Nepal, the waiver was granted for four of ten new activities. And in Yemen, three new activities began with only one permitting a waiver.

In the Latin America - Caribbean region only Haiti is categorized as a relatively least developed country. There, eight programs began in FY 1986. There were no waivers of the required contribution.

In Africa, although the preponderance of least developed countries are found there, the waiver was withheld more often than not. Of the thirteen recent project starts in African relatively least developed countries, a waiver of the 25 percent contribution was permitted in only four cases.

If the waiver authority is expanded to cover A.I.D. recipient countries slightly better off than the relatively least developed, only about 20 more, the new authority will be exercised as carefully and it is expected even less frequently than has been our practice for the poorest nations. A.I.D. believes that, except in very special circumstances, a recipient country contribution of 25 percent of the cost of a program is a necessary demonstration of real support and interest in the help we extend. There will be instances, however, where that contribution is either not possible or difficult to realistically measure. Participant training programs, for some countries, are an example. Unless a government employed trainee sent to the U.S. is kept on salary, in which case the 25 percent requirement probably would be met, the contribution would be in the form of foreign exchange. For most countries we assist, and although the 25 percent dollar payment for each participant may appear relatively insignificant, the foreign exchange for the contribution either won't be available or so administratively difficult to extract that A.I.D. could not provide the needed U.S. training.

Again, however, it will be the rare occasion when A.I.D. will waive the requirement for a real and significant contribution.

INTERNATIONAL NARCOTICS CONTROL

Question: Certification. Section 481(h) of the Foreign Assistance Act requires the President to certify that aid-recipient countries are fully cooperating with the United States or have taken adequate steps on their own to eradicate the production, or to eliminate the transport of illicit narcotics. What was A.I.D.'s role in assisting the President in making these certifications?

Answer: Information gathered in preparation of the annual International Narcotics Control Strategy Report (INCSR) is part of the information gathering process used in making these certification decisions. Much of this information is generated by the country team including A.I.D.'s field missions. In this regard, A.I.D. missions participate to the extent information on U.S. economic assistance and narcotics related activities are incorporated in country team reporting. A.I.D./W reviewed each country section to verify assistance levels where appropriate and to review A.I.D. project activities that were described in the INCSR. In addition, State/INM consulted with A.I.D. in the development of State Department recommendations on certifications for A.I.D. assisted countries.

Question: AID/INM Bureau Coordination. How does A.I.D. relate to the Bureau of International Narcotics Matters at the State Department in planning aid program levels and in implementing projects in major producing nations?

Answer: In the first instance, in major drug source and transit countries, there are generally specific inter-agency committees established to coordinate the activities of the concerned U.S. Government agencies. Thus in preparing annual budget proposals and in the course of designing or implementing projects, A.I.D. and INM personnel in the field work closely together.

In Washington, both agencies have the opportunity to review and attend meetings on the overall country programs proposed by their respective posts. These annual sessions provide each agency with a comprehensive review of the programs, policies and U.S. interests at issue in a given country. Moreover, specific A.I.D. projects reviewed during the course of the year in Washington involve inter-agency reviews. During these reviews, INM program officers are invited to attend and contribute to these reviews.

A.I.D's annual budgetary process and country program reviews include an assessment of a country's success or failure in implementing narcotics programs. These assessments are provided in part from State/INM and the country team directly. The Administrator of A.I.D. also established the position of Agency Narcotics Affairs Coordinator within the Agency's policy and budget bureau specifically, to ensure Agency-wide coordination and support of U.S. narcotics control objectives. The Coordinator helps ensure policy and staff level consideration of a country's performance on narcotics matters in developing programs and projects. In addition, the Assistant Administrators of the geographic bureaus have designated staff officers to monitor and track the performance of the countries within their region in addressing narcotics issues, including program levels in countries where A.I.D. is undertaking narcotics related projects.

A.I.D. HEALTH STAFFING

Question: Last year the House Appropriations Committee noted in its annual report that "AID has not moved forward on a number of health programs due to the lack of project planning and preparation." Among suggested remedies the Committee urged A.I.D. to obtain assistance from the Public Health Service to acquire additional staff. What steps is A.I.D. taking to increase health staff in the field?

Answer: A.I.D. has taken several steps using a variety of mechanisms to strengthen the staffing of its health and child survival programs.

A.I.D. currently has a worldwide total of 49 direct-hire health overseas positions in 33 countries and 2 regional offices (one in Africa and the other in the Caribbean). Of these, 23 (nearly half) also function as a population officer. At present, a total of 28 persons are engaged primarily in health activities in the twenty two emphasis countries compared to 26 of a year ago.

During FY 86, A.I.D. recruited five additional health professionals. A.I.D. has been authorized to recruit five new health professionals in FY 87.

In addition to direct hire personnel, A.I.D. obtains technical support for its programs thru a variety of mechanisms including contractors, PASAs, RSSAs, and IPAs and the Joint Career Corps and AAAS Fellows programs. In the largest example, A.I.D. currently provides funding for 39.3 health-professional person/years for Public Health Service/CDC support for child survival activities in Africa.

In response to the legislated mandate, A.I.D. is developing arrangements with the PHS/CDC to recruit an additional 25 individuals to work on child survival programs. A.I.D. has polled its field missions and identified opportunities to place PHS/CDC personnel in its programs and has developed a draft agreement to bring this program into existence.

Finally, in FY 86, A.I.D. initiated the Child Survival Fellows Program with Johns Hopkins University to place junior and mid-career professionals in child survival activities. Twelve fellows are currently in place (in Haiti, Guatemala, Peru, Indonesia, Bangladesh, Nigeria and A.I.D./W) and others will be assigned shortly.

Q. How will the aid be administered? Are you making any arrangements to guarantee that civilians in RENAMO areas will receive assistance?

A. - The U.S. emergency food aid will be administered by the DPCCN (Department for the Prevention and Control of Natural Calamities) with the assistance of CARE and other private voluntary organizations and the Mozambique Commerce Department. Management by these organizations is monitored by the U.S. A.I.D. Affairs Office in Maputo.

- New efforts are underway by the International Committee of the Red Cross (ICRC) to reach agreements with both the Government of Mozambique and RENAMO for safe passage to currently inaccessible "at risk" populations. The U.S. is encouraging this effort by the ICRC.

Housing Guaranty Program

The General Accounting Office has reviewed the Housing Guaranty Program several times, the latest being the May 1986, report on the Solanda project in Ecuador. GAO reported that the project had numerous problems including construction delays, high standards and costs which excluded much of A.I.D.'s target group from eligibility.

Question:	Has A.I.D. made any attempts to get the Ecuador Housing Bank to revise its policies along the line suggested by GAO? Please detail these efforts as well as the degree of success. For example, has the Bank refined its interest rate policy so as to provide affordable housing to lower-income families and to prevent subsidizing loans to those having higher incomes? If not, what has been A.I.D.'s response (i.e., has A.I.D. discontinued guaranty loans to Ecuador?)
Answer:	The May 1986, GAO report on the Solanda project in Ecuador concluded that:

"Solanda is the first Ecuadorian Government effort to construct low-income housing with cost recovery. The units will be affordable to A.I.D.'s target group of families below the median income (emphasis added) but beyond the capacity of families earning below the 35th percentile. However, more of these units will reach lower income groups than those reached by the bulk of BEV/JNV projects which are primarily serving families at and above the median income level." (page 71)

The sole recommendation resulting from this GAO report was that "if the Ecuador Housing Bank continues its policy of investing most of its resources in homes for those above the median income, the Administrator of A.I.D. will work with the Bank to retarget its shelter programs to families earning below the median income and to refine current Bank interest rate policy for social interest project and for projects for families earning above the median income so that low-income families do not subsidize higher income families." (page 26)

Consistent with this recommendation it is a current objective of the A.I.D. housing assistance program in Ecuador to encourage the Housing Bank to withdraw from production and financing of higher cost housing and to concentrate instead on programs such as the Solanda project and on even lower cost programs such as providing small loans to help families improve their existing houses.

The results to date are reflected in BEV's current mix of shelter solutions, as well as in the financial policies which the institution now applies.

Current production of shelter solutions: BEV is today building far fewer high-cost solutions than it proposed in its initial plans. Although the institution has not entirely abandoned the higher cost market, the bulk of its production today is in such lower cost solutions as the sites-and-services, shell units and progressive solutions introduced by the Solanda project. Slightly more than half of the loans which will be provided by the BEV in 1987 will be for home improvement programs, which are most effective in reaching very low-income families.

Financial Policies: The BEV has adopted uniform lending rates which provide loans at a minimum of 19% to its lowest income borrowers and increase to 23% for its highest income clients. An overall lowering of interest rates by the BEV has not been possible (nor would it be advisable) in the face of renewed high inflation in Ecuador, but the introduction of graduated payment programs has enabled the BEV to extend the coverage of its programs to lower income families.

Question: GAO also found, in an earlier report, numerous problems with management of the Housing Guaranty Program. GAO concluded that loans had been authorized and contracted without conducting country risk analysis and that large loans were concentrated in selected countries. A.I.D. subsequently contracted with Booz Allen for an evaluation of A.I.D.'s country risk analyses. What was the result of this evaluation? Does A.I.D. now use a standardized analysis format, and if so, how has it improved Housing Guaranty loan placement and management?

Answer: Financial risks of the Housing Guaranty Program:

The Housing Guaranty (HG) program is an important U.S. foreign assistance activity using a unique financing mechanism to advance U.S. foreign policy and international development interest. It is the principal instrument for providing assistance to developing countries in addressing the ever-growing urban problems. A.I.D. operates the HG program as an integral part of its country programming.

Following the GAO report of April 1984, A.I.D. has refined its procedures to assure that country risk is considered carefully in the review of proposals for Housing Guaranty programs:

(1) The A.I.D. shelter policy, as reissued in February 1985, includes for the first time a detailed discussion of the need to apply standards of credit worthiness in determining country eligibility for HG loans. As a general principle, the policy establishes that HG loans are not an appropriate form of development assistance for very poor countries (defined as those receiving IDA credits only and not IBRD loans).

(2) Country risk is now considered at three critical points in programming a HG loan:

- Before any project design work is done, the A.I.D. Bureau for Policy and Program Coordination reviews the suitability of each HG loan proposal based on country credit worthiness.

- A.I.D. Handbook 7, covering Housing Guaranties, requires that country risk then be considered again as part of project design and A.I.D. Regional Bureau approval. This analysis concentrates on the long-term economic prospects of the country, as well as its short-term debt servicing activity.

- Finally, before a HG loan is actually contracted with a private U.S. lender, the analysis of a country's short-term debt servicing situation is reviewed again.

There have been no claims against the U.S. guaranty on $162,500,000 in loans issued since the 1984 GAO Audit. A.I.D. contracted with Booz Allen to develop a methodology for projecting claims which has been incorporated as an element of the country risk analysis procedure described above.

Question: GAO also found that the program's reserve fund was dangerously underfunded for the amount of guaranty-liability incurred by A.I.D. What is the current status of the reserve fund? GAO also reported that Housing Guaranty loans had been exempted from some countries' official debt rescheduling which was counter to U.S. government policy. Have any Housing Guaranty loans been exempted from U.S. government rescheduling of official loans in any recipient countries in the past 2 years?

Answer: Cash flow projections for the Housing Guaranty reserve fund based largely on a system developed for A.I.D. by Booz Allen show a thin margin of safety as international debt rescheduling continues as a fact of life. Since reserve fund payments made as a result of LDC debt reschedulings are expected to be recovered eventually, we intend to meet cash flow needs through borrowings from Treasury rather than requesting direct appropriations from the Congress. Pursuant to the FAA, A.I.D. is authorized to borrow up to $40 million from the Treasury to meet loan guaranty claims. Cash flow projections for the HG reserve fund show that between FY 1987 and FY 1991, up to $100 million of borrowing authority may be required, including a contingency margin to cover any unforeseen claims. Therefore, the FY 1988 legislative request to the Congress proposes an increase in Treasury borrowing authority from $40 million to $100 million.

During the past two years all housing guarantee debt subject to host country guarantees have been included in foreign debt rescheduling proceedings. Excluded from public debt rescheduling have been non-host country housing guarantee loans. This treatment is consistent with current U.S. Government policy.

RESPONSES OF HON. EDWARD J. DERWINSKI TO QUESTIONS ASKED BY THE COMMITTEE

Q. I would like to have you provide for the committee an analysis of the merits of the bases standing on their own vis-a-vis being a part of the assistance process.

--It might appear that there are some advantages to including in the DOD budget payments to foreign governments in consideration of base and access rights and similar facilities, in lieu of our current "best efforts" pledges to provide certain levels of Security Assistance;

--Such an arrangement would presuppose a more explicitly binding agreement, would presumably be fully funded by Congress, and would thereby avoid the bilateral stresses now created when Security Assistance budget shortfalls preclude our meeting the "best efforts" commitment levels.

However, conversion of our current approach to an explicit "rent for bases" arrangement would over-simplify and demean what we and our allies are trying to do together:

-- Allies, particularly in NATO, should not charge each other "rent" for facilities which are essential to mutual defense.

--U.S. assistance and allies' provision of facilities for U.S. forces are reciprocal manifestations of a security partnership, and an integral part of overall cooperative bilateral relationships. A "rental" arrangement could appear to degrade this partnership into a simple business transaction.

--Bases and facilities aside, U.S. assistance to the countries in question strengthens the contributions and commitment of our allies to collective defense and on this basis alone is a fully justifiable effort in furthering vital U.S. interests.

--Rental agreements could well result in the providing country using its rental funds for non-military purposes which do not further the cause of the alliance.

In sum, either alternative entails an expenditure of U.S. resources from one budget account or another. Under the existing approach, a portion of these resources are in the form of loans, ultimately repaid to the United States with some, albeit often concessional, interest. All these funds are used to strengthen the common defense.

The major drawback to the existing approach has been Congress' failure in recent years to approve adequate funding to meet commitments.

Q. Deficit Reduction: In your testimony, you repeatedly make the point that the foreign policy budget is less than two percent of the total budget, and that cuts in foreign aid won't make a dent in federal deficits. Expenditure for education accounts for only two percent of the federal budget as well, yet education is being asked by this Administration to take a $5.5 billion, or 29 percent cut in the upcoming fiscal year. How can the 2 percent of the budget that makes up our education programs be considered so ripe for deficit reduction while the 2 percent for foreign policy can contribute nothing?

The foreign policy portion of the federal budget has contributed substantially over the past two years to deficit reduction efforts. In FY 1986, we saw our budget reduced by 7.4 percent from the previous year and in FY 1987, by an additional 10 percent. These cuts have been absorbed, but not without deleterious effect upon the nation's vital security interests.

No one can argue with the premise that education is vital to the nation's interest. We can and do argue strongly that the nation's interests are poorly served by those who view foreign policy programs - which have no natural electoral constitutency - as ripe for deficit reduction year in and year out. We are now about to enter our third year of crisis in foreign assistance funding, a crisis which threatens to undermine the solid foreign policy gains made by this Administration. Further cuts in foreign assistance funding are unlikely to assist the Congress very much in meeting difficult GRH deficit reduction targets; they will, beyond any shadow of a doubt, do grave damage to our security and trade relationships with much of the world.

Q: In 1981, grant military assistance went to 15 countries. In the Administration's 1988 request, it is proposed for 40 countries. In 1981, military credit sales went to 32 countries. In the 1988 request, only 14 countries would receive concessional loans. Are we not providing grant assistance to some countries which can afford loans?

A: Prior to FY 1988, the Administration did indeed request Treasury-rate loan programs for fiscally solvent countries such as Greece, Korea, Spain, etc., but the trend has been to increase the grant-aid component of military financing programs.

Since the early 1980s, Congress and the Executive Branch have voiced a mutual concern that nonconcessional FMS financing was exacerbating friends' and allies' debt problems. By increasing the grant element of FMS financing (loans or MAP), often in conjunction with economic assistance programs, many countries are better able to devote more of their scarce resources to economically productive activities.

It has been the sense of the Congress, one the Administration shares, that a more concessional foreign assistance program is in the best interest of the United States and other countries.

Q: You stated that our military assistance programs are targeted at the poorer countries around the world, yet under the Administration's request, only 7 percent of military assistance is directed to low income countries, 47 percent to low-middle income countries, and 46 percent to high-middle income countries. Those percentages seem to belie your statement. Would you care to comment?

A: I believe I stated that "our military assistance programs are targeted at the poorer countries ... with which we have important security objectives in common..." In addition, that statement followed my earlier point that " we provide military assistance to countries only when there is a common military purpose ... to help friendly countries defend themselves ... this is obvious with NATO allies, four of whom are major recipients of U.S. military assistance." Within the context of the overall statement, I believe it is clear that military assistance, both grants and loans, goes to meet the greatest national security need.

Q. You blame the Congressional earmarking of security assistance for specific countries for leaving only 14 percent of the military program funds available for 30 countries.

Absent the Congressional earmarks, would you have proposed reductions in allocations for the Camp David countries?

The other earmarks you cite as having had adverse consequences on overall funding for our friends and allies are those for Greece, Turkey and Pakistan. The appropriations earmark for Greece was 31 percent below the Administration's request for last year; Turkey was 40 percent below the request and Pakistan was 8 percent below the request. Given these already hefty reductions below the requested level, how much less would the Administration have provided for these three countries if not "encumbered" with Congressional earmarks?

A. Undersecretary Derwinski has responded to this question as well in his testimony before the Committee. His comments have reflected the view that it is not so much earmarks per se that the Administration objects to, but rather the effect of Congressionally-mandated budget cuts upon the remaining, non-earmarked accounts. He has also stated that the Administration does not oppose Congressional support for sustaining the peace between Egypt and Israel, as embodied in the Camp David accords.

We estimate that non-earmarked countries have been reduced, on average, some 50-60 percent as a result of earmarks favoring Egypt, Israel, Pakistan, Turkey and Greece. The prospect of continued earmarks combined with further budget cuts would spell disaster for our security assistance agreements with base rights and access countries, for aid to the impoverished countries of Africa, Latin America, the

Caribbean and East Asia, for continued support of the multilateral development banks, and much, much more. It is this very prospect of again facing - for a third year - stark choices among the foreign affairs priorities which remain after earmarking which the Administration objects to. It is unreasonable to expect that the U.S. can sustain a position of world leadership with assistance limited, by and large, to "earmarked" countries.

Q. In discussing last year's cuts, you point out that Spain's allocation was cut by 75 percent in the midst of renegotiating the base rights treaty, and that as a result, the negotiations are not going very well. Was Spain seeking to reduce the number of American troops stationed there prior to the fiscal year 1987 funding reduction?

A. IN CONJUNCTION WITH THE 1982 AGREEMENT ON FRIENDSHIP, DEFENSE AND COOPERATION THE UNITED STATES MADE A "BEST EFFORTS" PLEDGE TO PROVIDE SECURITY ASSISTANCE TO SPAIN. BOTH SIDES UNDERSTOOD THIS TO MEAN THAT THE U.S. WOULD SEEK TO PROVIDE ANNUALLY $400 MILLION IN FMS CREDITS, $3 MILLION IN IMET AND $12 MILLION IN ECONOMIC SUPPORT FUNDS FOR THE LIFE OF THE AGREEMENT, SUBJECT, OF COURSE, TO CONGRESSIONAL AUTHORIZATION & APPROPRIATION. FAILURE TO MEET OUR "BEST EFFORTS" LEVELS UNDER THE PRESENT AGREEMENT MAKES NEGOTIATING A SUCCESSOR AGREEMENT MORE DIFFICULT BECAUSE IT RAISES CONCERNS ABOUT THE RELIABILITY OF THE UNITED STATES AS A PARTY TO AGREEMENTS AND ABOUT OUR ABILITY TO FULFILL OUR UNDERTAKINGS.

THE BASIS FOR THE PRESENT NEGOTIATIONS IS THE DECEMBER 1985 U.S.-SPAIN JOINT COMMUNIQUE WHICH ESTABLISHED THE PRINCIPLE OF A REDUCTION IN THE U.S. MILITARY PRESENCE IN SPAIN WHERE SPANISH FORCES COULD SUBSTITUTE FOR MISSIONS NOW PERFORMED BY U.S. FORCES WITH NO OVERALL LOSS OF SECURITY FOR EITHER PARTY OR THE NORTH ATLANTIC ALLIANCE.

Q. Base Rights Countries - The total ESF/military assistance to base rights countries in 1983 was $1.586 billion. That total rose by some $600 million in 1985 to $2.185 billion.

For fiscal year 1987, the total military/ESF assistance for base rights was $1.5 billion, a 31 percent decrease from 1985, but only a 5 percent decrease from 1983.

Isn't there some justification to the criticism that using the 1985 funding levels as the benchmark for all future requests is unrealistic?

A. Not necessarily. Between 1983 and 1985, several of the base rights agreements were renegotiated. The 1985 request contained the aid levels associated wih the "best effort" pledges contained in those new agreements. In 1985, Congress saw fit to appropriate the funds necessary to substantially meet those pledges.

In 1987, the base rights country levels declined sharply due to Congressional earmarking of Turkey and Greece and the sharp overall cut in foreign assistance program levels. The base rights agreements in 1987 are the same as those in place in 1985, however, and the amounts necessary to meet our commitments in those agreements are essentially the same as well.

We have requested FY 1987 supplemental appropriations to make up some of the shortfall. And our FY 1988 request, some $250 million below our 1987 request, is the minimum necessary to insure the continued used of critical facilities in key strategic regions in Europe and the Pacific.

MILITARY ACCESS AGREEMENT

QUESTION: A recent report in the New York Times indicates that the Defense Department is seeking an agreement with Zaire that would allow the United States to use an air base to support a wide range of activities in central and southern Africa. It has also been suggested that the base has been used to supply arms covertly to Unita. What is the status of this basing agreement?

ANSWER: The US conducts small scale military exercises with the armed forces of Zaire as part of our ongoing training programs. Although we do not publicly announce these exercises, it is fair to say that Kamina air base is likely to be used for exercises within the next few months. Kamina base is in a state of partial disrepair and there have been discussions between the State and Defense Departments concerning possible minor repairs and construction to facilitate the conduct of the exercises.

The desirability of a formal agreement that would give the US access to the facilities at Kamina airbase has been discussed within the Administration, but no decision has been taken on whether it would be in our interest to seek such an agreement.

LAVI FIGHTER AIRCRAFT PROJECT

Q: Has the future of the Lavi been decided by the Israeli cabinet?

A: The Israeli government has not yet made a final decision on whether to continue the Lavi. The Minister of Defence is expected to make his recommendation to the Cabinet within the next several weeks for final action.

NATO STATUS FOR ISRAEL

Q: Israel, along with Japan, Australia, South Korea and Egypt has been accorded "Major non-NATO ally" status. On his recent visit to Washington, Prime Minister Shamir suggested that Israel be given the status of a full NATO ally. If such status were granted, for what additional U.S. financial and military aid, beyond its current $3 billion, would Israel be eligible?

A: Neither Israel nor the United States have formally proposed either NATO membership for Israel or the establishment of a U.S.-Israel defense treaty. It would not be appropriate for me to speculate on hypothetical situations.

Q. The Gramm-Rudman-Hollings legislation establishes a set of deficit reduction targets. President Reagan has endorsed this legislation but ruled out any increase in revenues. In light of this situation, how can you expect any increase in foreign aid this year?

A. Secretary Shultz has covered this question in some detail in his testimony before this committee and the Senate Budget Committee. I believe his comments clearly demonstrate the need to meet budget requirements and national security and foreign policy requirements. We believe that both can be met and that the President's budget request demonstrates the way in which this can be done.

Q. Last year, the Senate Appropriations Committee recommended that the Military Assistance Program be abolished and that the FMS credit program be converted to an all-grant program. That proposal was not approved by the CR conferees. What is your view of the concept of an all-grant program? If such an approach was taken, how much could funding level be reduced?

A. Since our major objective is to objective is to obtain levels of funding sufficient to address vital security needs of our friends & allies, any approach that presumed reductions in security assistance funding levels is undesirable. The Administration, consistent with a restrained Federal budget, believes that an all-concessional security assistance program is fully justified in FY 1988. We continue to believe that a combination of grant MAP and concessional FMS financing is approporiate, and most responsive to the security and economic circumstances of both the Untied States and recipient countries.

Q. What are the prospects that the United States will be expected to provide increased levels of security assistance to "base-rights countries" such as Turkey, Greece, Portugal, Spain and the Philippines in order to maintain U.S. rights to use military facilities there? Please elaborate regarding the prospects in each of these countries.

A. All base rights countries have suffered declines in levels of support provided for FY 1986 and FY 1987, given appropriation shortfalls and GRH-mandated cutbacks. FY 1987 reductions were especially dramatic due to deep appropriation cuts. We are seeking to restore some of these losses in our FY 1987 supplemental and FY 1987 budget requests, in addition to offering more favorable terms of assistance.

Though difficult to assess as yet with any precision, U.S.

credibility has clearly been damaged as a result of reduced funding levels in base rights countries. We cannot predict whether the U.S. will be expected to provide increased levels of security assistance to base rights countries but can and do assume that continued difficulties with our credibility will make the process of negotiating to maintain those critical facilities that much more difficult.

As we approach these negotiations, we will make every effort to minimize costs to the U.S. given our severe budget problems. Nevertheless, we cannot lose sight of the fact that our assistance commitments to NATO base rights countries are designed to provide the resources necessary to allow these countries to assume the full share of their responsibilities as NATO partners. In the case of the Philippines, force modernization will be critical to the ability of the GOP to counter the insurgents and maintain internal stability.

Each country will seek the funds they believe are necessary to meet their needs. We will help them analyze those needs and try to construct assistance packages that best serve our mutual interests. We believe that our FY 1987 supplemental and FY 1988 requests contain the minimum resources necessary to achieve this critical objective.

--Given the problems of military aid funding for base rights countries, should we get away from using assistance as a basis for getting base rights access and move toward non-appropriated forms of assistance (military-industrial cooperation, waivers of R&D costs on weapon sales, grants of excess defense articles, etc.)?

A. NON-APPROPRIATED FORMS OF ASSISTANCE ARE NOT A SUBSTITUTE FOR SECURITY ASSISTANCE. WE SUPPORT THE GOAL OF MOVING AWAY FROM SECURITY ASSISTANCE BUT WHEN AND HOW THIS IS DONE DEPENDS ON POLITICAL AND ECONOMIC CONDITIONS IN THE PARTICULAR COUNTRIES CONCERNED.

Q. During the current fiscal year the U.S. is providing the Philippines with $50 million in military assistance and $250 million in economic aid. For FY 1988 the administration is seeking $110 million in military assistance (120% increase) and $124 million in economic assistance (a 124% decrease). What has changed that justifies altering the mix between military and economic assistance?

A. In comparing the FY 87 authorization levels with the FY 88 request, certain special circumstances which affected our FY 87 assistance program to the Philippines must be taken into consideration. First, the Administration originally requested $100 million in grant military assistance for the Philippines in FY 87. As a result of the stringent budgetary situation which arose from Congressional cuts in our overall security assistance budget, we were obliged to cut substantially several programs including the Philippines' program. We have submitted to Congress a request for a supplemental appropriation for FY 87 which includes an additional $50 million in MAP for the Philippines. If this is approved, the final total for FY 87 will be $100 million. The FY 88 request is only 10% higher than this figure.

Secondly, the economic assistance which we are providing for the Philippines in FY 87 includes a special appropriation of $200 million which was voted by Congress following President Aquino's highly successful visit to the U.S. in September 1986. Our original FY 87 request was for $90 million in ESF for the Philippines. This figure is the one which should be used in comparing our FY 87 request to our FY 88 request.

19. Greece: U.S. Bases

Q: Do you expect the Greek Government to renew the base agreement which expires in 1988?

A: -- WHEN THE SECRETARY VISITED ATHENS LAST YEAR, HE AND PRIME MINISTER PAPANDREOU DISCUSSED THE FUTURE OF U.S.

MILITARY FACILITIES IN GREECE. THEY DID NOT COME TO A CONCLUSION, BUT DID AGREE THAT A SERIOUS DISCUSSION OF THIS QUESTION WOULD TAKE PLACE IN TIME TO PERMIT THE ORDERLY RESOLUTION OF THE QUESTIONS WELL PRIOR TO DECEMBER 1988.

-- WE ARE IN TOUCH WITH THE GOG ON THIS MATTER AND HOPE TO START TALKS SOON.

-- PAPANDREOU HAS SAID THE DEFENSE AND ECONOMIC COOPERATION AGREEMENT (DECA) TERMINATES IN DECEMBER 1988 AND THAT "WHATEVER NEGOTIATIONS TAKE PLACE WITH THE U.S. WILL COMMENCE FROM A ZERO BASIS".

20. Greece/Turkey: Military Assistance

Q: The Administration has proposed 60 percent increase in military aid for Turkey and a 27 percent increase for Greece. Are such disparate increases consistent with the requirement of Sec. 620 C of the Foreign Assistance Act, that the relative military strengths of Greece and Turkey be preserved?

A: -- WE BELIEVE THAT OUR REQUESTS MEET THE REQUIREMENT TO MAINTAIN THE PRESENT BALANCE IN PROVIDING SECURITY ASSISTANCE TO GREECE AND TURKEY. THIS ADMINISTRATION, LIKE ITS PREDECESSORS, DOES NOT BELIEVE, HOWEVER, THAT ANY FIXED RATIO SHOULD BE APPLIED TO OUR SECURITY ASSISTANCE PROGRAMS TO THESE TWO COUNTRIES.

-- THE BALANCE OF POWER IN THE REGION DEPENDS ON MANY OTHER FACTORS BESIDES U.S. AID AND THESE ARE CONSTANTLY CHANGING. MOREOVER, GREECE AND TURKEY HAVE DIFFERENT MILITARY REQUIREMENTS, NATO ROLES AND MISSIONS AND LEVELS OF ECONOMIC DEVELOPMENT. OUR ASSISTANCE REQUEST FOR EACH IS BASED ON ITS PARTICULAR NEEDS AND RESOURCES.

-- THE BUDGET PROCESS REDUCED OUR ASSISTANCE TO TURKEY FOR FY 87 FROM A REQUESTED LEVEL OF $820 TO $490 MILLION IN FMS AND MAP. THAT FIGURE IS WELL BELOW WHAT WE BELIEVE IS ESSENTIAL. WE HAVE MADE A BEST EFFORTS PLEDGE TO THE TURKISH GOVERNMENT TO ASSIST IN THE UPGRADING OF TURKEY'S MILITARY FORCES AND THUS ITS ABILITY TO CONTRIBUTE TO NATO STRATEGY, A CENTRAL GOAL WE SHARE WITH TURKEY. IN DETAILED JOINT PLANNING EFFORTS WITH TURKEY OVER THE PAST SEVERAL YEARS, WE HAVE AGREED THAT AT LEAST $1 BILLION IN ASSISTANCE WOULD BE NEEDED ANNUALLY TO MODERNIZE TURKEY'S FORCES SO THEY COULD ADEQUATELY MEET THEIR NATO RESPONSIBILITIES. OUR REQUEST WAS DESIGNED TO BRING ASSISTANCE TO TURKEY CLOSER TO THE LEVEL WE THINK DESIRABLE. THE $490 MILLION ALLOCATED FOR FY 87 WILL ENABLE TURKEY TO MEET PAYMENTS ON PURCHASES ALREADY MADE BUT WILL NOT PERMIT ANY NEW ACQUISITIONS.

-- GREECE, ON THE OTHER HAND, CURRENTLY HAS REMAINING $635 MILLION IN ALLOCATED FMS CREDITS, AFTER ALL PLANNED ACQUISITIONS THAT WE KNOW OF. THAT FIGURE IS COMPOSED OF $292 MILLION IN FMS CREDITS ALLOCATED THROUGH FY 86 PLUS THE $343 MILLION ALLOCATED IN FY 87.

21. Greece/Turkey/Cyprus. Congress has provided security assistance to Turkey in the expectation that it will facilitate a just resolution of the Cyprus problem. Do you believe that any progress has been made recently? If not, what have been the obstacles to progress?

A. --We provide security assistance to Turkey because a full military relationship is in the national interest of the United States and in the interest of NATO. A close alliance relationship with Turkey also enhances our ability to play a constructive role in the search for a negotiated Cyprus settlement.

--Turkey has been making a good faith effort to cooperate with the UN Secretary General's good offices mission to achieve a peaceful Cyprus solution. The Government of Turkey encouraged the Turkish Cypriot leadership to show flexibility in the proximity talks sponsored by the Secretary General in the fall of 1984. As a result of those talks, the Secretary General presented a draft framework agreement to both Cypriot sides in January 1985. The Turkish Cypriots accepted that document. The Government of Turkey also encouraged the Turkish Cypriot leadership to accept the draft framework agreement presented by the Secretary General in March 1986. The Turkish Cypriots also accepted that draft agreement and expressed their willingness to move into negotiations on the basis of the procedures outlined in it.

--Differences between the two Cypriot sides regarding the Secretary General's March 1986 document led to an impasse in the negotiating process. The Secretary General is currently seeking to develop an approach which will be equally acceptable to both Cypriot sides and enable them to move forward into negotiations. We fully support his efforts.

22. Greece/Turkey/Cyprus. You propose to change the congressional practice of providing military aid to Greece and Turkey on a 7:10 (Greece:Turkey) basis. If you believe a case can be made against using this ratio as a basis for aid, how would you propose that we send a message to Turkey that the U.S. is serious about progress on Cyprus?

A. --This Administration, like its predecessors, does not believe that 7:10 or any fixed ratio should be applied to our security assistance programs to these two countries. It is not logical to link our aid to one state to our aid to another. Greece and Turkey have different military requirements, military missions and levels of economic development. Our assistance to Greece and Turkey should be based on each's particular needs and resources.

--Turkey is fully aware that the U.S. is serious about progress on Cyprus. Maintenance of a close alliance relationship strengthens our ability to contribute to the effort to move the negotiating process forward.

Q. Greece/Turkey/Cyprus. Turkey has apparently used U.S. military assistance to upgrade its forces on Cyprus despite the stipulation in Sec. 620C of the Foreign Assistance Act that U.S. Assistance is "intended solely for defensive purposes, including when necessary to enable the recipient country to fulfill its responsibilities as a member of NATO." Do you believe these Turkish activities are consistent with existing U.S. law? What are your views on the recent legislation introduced by Senators Pell, Biden, Pressler, Simon, and others which would explicitly prohibit such activities? Can you give us your views on this issue?

A. Regarding your first question, Presidential Determination 78-18 of September 26, 1978, issued pursuant to the authority of the International Security Assistance Act of 1978, permitted the resumption of full military cooperation with Turkey and eliminated previous conditions of such assistance on Turkish actions with regard to Cyprus. At the time of the enactment of the 1978 Act Congress recognized that a flexible approach to the provision of military assistance to Turkey was supportive of both efforts to achieve a peace settlement on Cyprus and the security of NATO's southern flank. Units of the Turkish armed forces were then present, as they are today, in Cyprus. In every year since 1978, we have provided military assistance to Turkey for the use of its armed forces. We do not believe there has been any recent material change in circumstances which would warrant changing our approach to the provision of assistance.

--In answer to your second question, I would also like to provide you with the Department's views on the bill introduced by Senators Pell, Pressler, Biden, Simon, and others to prohibit the use on Cyprus of military equipment provided to Turkey by the U.S.

--As the proposed legislation seeks to use the provision of

U.S. military assistance to Turkey to force a Turkish withdrawal from Cyprus, I will address this aspect of the bill first. We have learned through experience that attempts to legislate such an imposed Cyprus solution do not work. A settlement must be freely negotiated by the parties if it is to be viable and last. We support a withdrawal of non-Cypriot forces from the territory of the Republic of Cyprus, but the only realistic prospect for achieving that is in the context of a negotiated solution.

--A peaceful solution can only be achieved through negotiations among the parties. In such negotiations, withdrawal of non-Cypriot forces from the territory of the Republic of Cyprus will be one of the key issues. Other important issues include the nature of guarantees for a settlement and acceptable security arrangements as perceived by each of the communities. They will have to work this out together and live with the results. Pending the successful conclusion of these negotiations, which will involve give-and-take by both sides on all issues, it must realistically be expected that Turkey will continue to maintain forces in Cyprus as a measure necessary in its view to protect the numerically smaller Turkish Cypriot community. As a practical matter, Turkish forces deployed to Cyprus are likely to be equipped similarly to Turkish forces elsewhere. This applies equally to Greek mainland forces currently on Cyprus.

--Meanwhile, it is essential to maintain Turkish support for the negotiating process. The proposed legislation, if passed, would become an obstacle rather than an incentive to progress toward the negotiated settlement in Cyprus we actively seek. Turkey has made a good faith effort to cooperate with the UN Secretary General's efforts to engage the two Cypriot communities in talks leading to a peaceful settlement.

--Second, this bill should not be assessed without addressing the impact on our relations with Turkey. Adoption of this bill, I must stress, would seriously undermine that relationship and both our countries would suffer. As you know, maintenance of strong ties with Turkey is essential to U.S. national interests and to NATO. Turkey has been a firm ally, as most recently demonstrated by the recent initialling of an agreement to extend our Defense and Economic Cooperation Agreement. Access to important bases and military facilities in Turkey is of inestimable value to the United States and a critical link in the NATO defense chain.

--Third, our ability to contribute to a peaceful Cyprus solution is strengthened by maintaining the best possible overall cooperation with our friends in the region, as well as maximum leeway in our policy on military cooperation.

--We therefore strongly believe that passage of this legislation would be detrimental to the search for a peaceful, negotiated Cyprus settlement and harm our broader interests on NATO's southern flank and in the eastern Mediterranean.

Q. Transfer of Excess Military Equipment. Section 1101 of the FY 1987 Defense Authorization Act amended the Foreign Assistance Act to provide a two-year authorization for the transfer of excess defense articles to NATO's Southern Flank Countries, including Spain, Portugal, Italy, Greece and Turkey. What major items do you intend to transfer and to whom?

A. The defense equipment from US stocks that has become excess to service need and has not already been sold is limited in quantity. Most of this equipment is old, in marginal or unknown condition. In generic terms, the major items in our initial proposals to allies include aircraft, tanks and artillery. Our allies are now studying the proposed transfers and discussing details with U.S. officials. DoD estimates that the lists will be ready for Presidential notification to Congress during April.

Q. Do your think such transfers will become a major portion of the security assistance program to the Southern Flank if the Congress provides the permanent authorization the Administration is now requesting?

A. No, these transfers will become a major portion of the security assistance program to the Southern Flank even if the Congress provides the permanent authorization the Administration is requesting. These materials are limited in quantity, may be of marginal utility and will not meet the modernization needs of the Southern Flank Allies. Nonetheless, while some of the equipment is clearly obsolete, these transfers may provide an interim capability which would not otherwise be available.

5) There has been a great deal of controversy over cuts in military assistance for Spain and Portugal. Nonetheless, while both Spain and Portugal did get far less in FY 1987 than they did in FY 1986, the terms of the assistance were better. Spain received concessional military aid loans, which it had not received before, and Portugal received increased MAP.

--Have these facts been brought to the attention of Spanish and Portugese authorities when they objected to the cuts in military assistance from FY 1986.

A. THESE FACTS HAVE INDEED BEEN BROUGHT TO THE ATTENTION OF THE GOVERNMENTS OF SPAIN AND PORTUGAL. AT THE TIME THE FY87 SECURITY ASSISTANCE LEVELS WERE MADE PUBLIC LETTERS WERE SENT TO THE FOREIGN MINISTERS OF PORTUGAL AND SPAIN EXPLAINING THE BASIS FOR THE LEVELS. THE RESTRAINED RESPONSE OF BOTH GOVERNMENTS TO THE SEVERE CUTS IN U.S. ASSISTANCE TO THEM DEMONSTRATES THAT THEY DO UNDERSTAND BOTH THE BUDGETARY PROBLEMS THAT LED TO A REDUCTION IN SECURITY ASSISTANCE AND OUR EFFORTS TO IMPROVE THE QUALITY OF U.S. ASSISTANCE THROUGH MORE FAVORABLE TERMS. HOWEVER, WE MUST NOTE THAT THE IMPROVED QUALITY OF ASSISTANCE HAS NOT FULLY MADE UP FOR THE SHORTFALL IN QUANTITY AND THAT THE LEVELS ARE NOT CONSISTENT WITH OUR BILATERAL AGREEMENTS.

--Why should the Congress support military aid increases for Spain when at the same time the Spanish Government is seeking a decreased U.S. military presence, including the possible termination of presence at a number of bases?

A. IN CONJUNCTION WITH THE 1982 AGRREMENT ON FRIENDSHIP, DEFENSE AND COOPERATION THE UNITED STATES MADE A "BEST EFFORTS" PLEDGE TO PROVIDE SECURITY ASSISTANCE TO SPAIN. BOTH SIDES UNDERSTOOD THIS TO MEAN THAT THE U.S. WOULD SEEK TO PROVIDE ANNUALLY $400 MILLION IN FMS CREDITS, $3 MILLION IN IMET AND $12 MILLION IN ECONOMIC SUPPORT FUNDS FOR THE LIFE OF THE AGREEMENT, SUBJECT, OF COURSE, TO CONGRESSIONAL AUTHORIZATION & APPROPRIATION. THE ADMINISTRATION HAS NOT SOUGHT TO "INCREASE" FUNDING FOR SPAIN BEYOND THIS LEVEL. FAILURE TO MEET OUR "BEST EFFORTS" LEVELS UNDER THE PRESENT AGREEMENT MAKES NEGOTIATING A SUCCESSOR AGREEMENT MORE DIFFICULT BECAUSE IT RAISES CONCERNS ABOUT THE RELIABILITY OF THE UNITED STATES AS A PARTY TO AGREEMENTS AND ABOUT OUR ABILITY TO FULFILL OUR UNDERTAKINGS.

Q: High Debt. A number of nations, including Israel, Egypt, Turkey, Korea, Spain and Pakistan have large high-interest FMS principal outstanding. What do you see as the best approach for dealing with this problem?

A: The Administration has adopted two initiatives for countries such as those mentioned. Page 52 of the FY 88 CPD for international security assistance programs describes both initiatives.

Q: Guaranty Reserve Fund. It now appears that the Guaranty Reserve Fund (GRF), set up to cover defaults and reschedulings on past FMS guaranteed loans, has run out of money even though substantial reschedulings are expected this year. How does the Administration plan to replenish the GRF since there is no budget request for replenishment? Has the Administration considered using administrative surcharges from FMS sales to replenish the GRF?

A: More than 75 percent of the GRF's problems stem from Paris Club reschedulings. Since these reschedulings are permitted under existing legislative authority as a way of maximizing long-term payments to the U.S. Government, the Department of the Treasury has agreed that FFB will not demand payment from the GRF if the GRF does not have adequate funds available to cover a missed or rescheduled payment. The length of time that the FFB will go without payment will depend on inflows to the GRF. If either of one or two key countries make up their arrears, as they have said they will, GRF liquidity problems will be significantly reduced. The FFB will carry these amounts as payments due until the GRF, through normal inflows, has enough to cover them. The Administration has not requested appropriations to replenish the GRF because inflows from borrower countries are expected to be sufficient to pay the FFB. We see no need, therefore, to request a supplemental for the GRF at this time. State, Defense, and Treasury have agreed that the FFB will be paid full value, including late charges on the outstanding arrearages from all funds available to the GRF. This solution is legally and financially sound and is no different from other situations that the FFB has encountered with guaranteeing agencies. We have neither considered nor do we have authority to use administrative surcharges from FMS to replenish the GRF.

Q. What would be the impact of the enactment of S. 419, the Arms Export Reform Act?

A. S. 419, by fundamentally changing basic authorities to conduct arms sales that have been in effect for at least 35 years, would undercut the President's authority to use arms transfers to enhance U.S. national security, and to manage our foreign policy. It introduces even greater uncertainties into the arms transfer process than already exist. Traditional relationships with friends and allies -- especially in the less developed world -- that have served our mutual interests well over time could be undermined; it will be difficult for them to plan to rely on the US as a dependable and reliable arms partner.

The bill risks causing significant delay in concluding sales whose timely execution is often important to U.S. security interests. An already crowded congressional calendar would make it uncertain that even non-controversial arms transfers could be approved. The bill would also remove the flexibility in current law to manage timing problems that arise when Congress is not in session. Informal discussions between the branches on the handling of sales cases during recesses and adjournments are not possible if positive action -- enactment of a joint resolution of approval -- were required.

Had S. 419 been in effect in 1986, Congress would have had to enact about 100 joint resolutions of approval (unless some new method of packaging otherwise unrelated sales proposals were imposed on an already complicated procedure). Both the Congress and the Administration would have wasted valuable time on perhaps 25 percent of these cases, which would never come to fruition. Thus S. 419 would place a heavy burden on precious committee and congressional time.

The Executive Branch provides numerous reports to Congress on potential arms sales, and is prepared to consult and to discuss them at any time. The current system works; it has not broken down. S. 419 would create numerous new rather than solve any existing problems.

Q. Is it not constructive to devise arms sales review procedures which provide the basis for greater consensus on such potentially contentious matters?

A. Current review procedures provide ample opportunity for thorough consultation and discussion on all major arms sales. However, there is no way to guarantee that such discussions, under the current or any other set of guidelines, will lead to consensus or agreement. Let me briefly review current procedures.

The Executive Branch annually, in conjunction with its Congressional presentation materials, submits to Congress the Javits Report, listing by country those items of major defense equipment that appear at that time to be potential cases for consideration during the calendar year. While this overview of possible cases contains many items that will not develop into actual sales, it is the best projection that can be made. The Administration normally offers to brief interested Members and staff on the contents of this Report. For example, we briefed the staff of the Foreign Relations Committee on February 19, 1987, on this year's Report. In addition, the Administration provides to Congress a quarterly report on requests for price and availability (P&A) data and on letters of offer issued during the previous quarter.

Once it decides to make a sale, the Administration has adopted a procedure allowing for a 20-day informal classified notification period, followed by the statutorily mandated 30-day formal notification period. This provides for a 50-day consultation period during which we respond to questions, and seek to minimize potential differences. We also conduct informal consultations on potentially controversial sales that do not require formal notification. We have carefully followed this procedure of informal and formal notifications this year, as in the past.

Over the past six years, the system has worked very well. The vast majority of arms transfers are completely non-controversial. During recent years, there have been only three or four major Congressional debates over proposed arms sales that actually went to a vote, one or two others that we worked out to Congressional satisfaction during normal consultations, and several others that were withdrawn in response to Congressional concerns. This is a small fraction of the approximately $75 billion in arms transfer agreements which have been signed during the 1981-86 period, and most of these cases were resolved through careful compromise and consultation. Accordingly, we believe that a high degree of consensus has been achieved under the current system.

Q. How would you respond to those who believe that the system has gone awry when 73 Senators and an overwhelming majority (356-62) of the House of Representatives have voted to stop and the President's veto permits the sale, as happened last year in the Saudi missile case?

A. In our judgment, the single instance underlying the question simply reflects the working of the legislative process. Presidents (who are constitutionally responsible for the conduct of foreign relations) have had statutory authority to make arms sales since the administration of Harry Truman. Prior to 1974, there was no legislated review role for the Congress. Under this structure, Congress would have had to pass legislation and override any veto. In 1974, Congress acted not to withdraw any of the President's authority, but only to provide a procedure for review authority by which a majority of both houses could prohibit a sale on an _ad hoc_, case-by-case basis. If Congress did not act, the President still had the authority to proceed with the sale. The procedural interference was challenged on constitutional grounds by President Ford, a position later sustained by the Supreme Court in the _Chadha_ decision.

S. 419 is a radical substantive departure from anything in force to date because it would withdraw the basic substantive authority to make arms sales without case-by-case legislative action. Congressional failure to act, for whatever reason, would stop the President from carrying out the planned sale. (Indeed, the failure to act by only one house, even in the face of overwhelming support from the other house and the President, would have this detrimental effect.) Unlike the past, S. 419 would end the situation of shared responsibility between the

Executive and Legislative branches for the conduct of arms sales, under which each has an important role to play, in accordance with the well understood political principles of separation and balancing of powers. It would give to the Legislative branch alone the responsibility to authorize arms sales--indeed it would give the authority to "disapprove" a sale to a single house of the Legislative branch. In the Senate, even a vocal minority could filibuster and kill a sale otherwise supported by a majority. Such a procedure would be contrary to long established practice of Executive-Legislative interaction, and not conducive to the making and implementation of effective U.S. international security policy.

Q. What would be wrong with a system in which the key requirement is that sales proposals receive the support of a simple majority of Congress?

A. The successful conduct of international arms sales, like all other elements of our foreign and security policies, has traditionally been based on coordination and shared responsibility between the Executive and Legislative branches. Taking away existing foreign affairs related executive authority to vest it in a majority of one house not only violates the concept of shared responsibility, but also would result in removing an important foreign policy instrument from the Executive. This must be avoided because it would make it difficult if not impossible for any President to conduct an effective, coherent national security policy.

Q. The Administration has expressed concerns about the number of cases which would have to be passed on by Congress. The bill is designed to give an Administration numerous options for consolidating and packaging sales. This could be done annually, quarterly, or monthly.

Could not the vast majority of sales which would be non-controversial be considered en bloc in the same manner as military promotion or diplomatic appointment lists?

A. Such an approach would slow down the processing of arms sales requests and needlessly complicate countries' budgetary planning and defensive readiness postures. If the sales are not controversial, there is no reason to interfere with the routine implementation of such cases.

Q. Last year the Pentagon placed $156.8 billion in military procurement orders, and FMS and commercial sales came to $9.1 billion. Since it is questionable whether any sales would be lost, how could one conclude that losses of foreign sales, even if they occurred to some limited extent, would have a significant impact on the defense industry?

A. Although these figures indicate that combined FMS and commercial military sales total some six percent of total DoD acquisitions, that six percent still resulted in many cases in a considerably lower unit cost for DoD. Clearly, the economies of scale represented by foreign military sales do represent a significant cost reduction for DoD, the U.S. taxpayer, and our friends and allies around the world.

Q: What military aircraft might be sold in the Persian Gulf region this year?

A. [Deleted.]

Q: How do such sales fit into any overall plan?

A: Although our moderate Arab friends in the Persian Gulf region would prefer to rely primarily on diplomacy to preserve their neutral, non-belligerant stance, the increasing threat of either a direct attack from Iran or a spillover of the Iran/Iraq War requires more concerted defense enhancement measures. The military aircraft sales under consideration for the Persian Gulf region this year will enhance these states' individual abilities to deter and, if necessary, to repel an Iranian air attack and contribute to collective GCC defense arrangements -- a military cooperation effort which we wholly endorse and encourage.

Q: Does the Administration plan to modify previously given assurances that Saudi F-15s will not be enhanced through the provision of systems on armaments that augment their ground attack capabilities?

A: No, there is no plan now under consideration to modify these assurances. The F-15s the Saudis possess are superb air defense aircraft. Given that the Saudis have other ground attack capabilities, it is unlikely they would want to convert their primary air defense aircraft into a ground attack role.

Q: What can you tell us about prospects for major arms sales to Saudi Arabia this year?

A. [Deleted.]

40. Honduras. According to press reports, Honduras will seek either American F-5 fighter aircraft or Israeli Kfirs.
    a. What is the status of this?
    b. Would we finance the sale of either type of aircraft?
    c. What would be the effect of the introduction of such aircraft upon the air balance in Central America?

The Honduran Government has indicated its preference to purchase the F-5 aircraft from the United States. The sale of F-5 aircraft would be financed through our military assistance program. We will be consulting with the Congress on this matter in accordance with accepted procedures within the next few weeks.

The acquisition of F-5s by Honduras will help maintain the current regional balance in Central America. Honduras has the smallest army in the region, and its Air Force's capabilities have been fundamental to the regional balance. The Honduran Government historically has relied on its air superiority for its defense. The replacement of its aging Super Mystere aircraft is necessary to enable Honduras to preserve this defensive capability.

Q: What major arms sales do you anticipate to Pakistan?

A. [Deleted.]

Q: Are press reports correct that you are considering the sale of early warning aircraft to Pakistan? If so, what is the status of the request?

A. [Deleted.]

REFORMS AVOIDED

Question: Some critics have charged that the increased use of the cash transfer for budget and balance of payments support has actually proved harmful because it helps recipients avoid economic reforms that otherwise would have to be made.

Answer: Often, the ESF cash transfer is predicated on policy reform. The U.S. thereby provides fast disbursing balance of payments support in return for changes in recipient country economic policies. Such changes are targeted at achieving either short term stabilization in the balance of payments or, as is more often the case, at long term adjustment in the composition of output and exports. Examples of policy changes in the former category include revenue improvement and expenditure restraint in the public sector. Examples of the latter include reform of the tariff and trade regimes and the elimination or reduction of price controls. Reform of the exchange rate regime contributes to both objectives.

The conditionality that is negotiated under our ESF programs is often very similar to that of the IMF and the World Bank, donors whose program lending also focuses on reforming recipient country policies to the point where external assistance for balance of payments purposes is no longer needed.

Q. Earmarks: One of the Administration's oft-repeated criticisms of the Congressional approach to foreign aid has been the tendency to earmark funds. Approxmiately 70 percent of the ESF account is earmarked (with Israel and Egypt accounting for almost 60 percent of the total account). Absent such earmarks, how would you reorder priorities in contrast with the way Congress has ordered them through the use of earmarks?

A. Undersecretary Derwinski has responded to this question in his testimony before the Committee. His comments have reflected the view that it is not so much earmarks per se that the Administration objects to, but rather the effect of Congressionally-mandated budget cuts upon the remaining, non-earmarked accounts. We estimate that non-earmarked countries have been reduced, on average, some 50-60 percent as a result of earmarks favoring Egypt, Israel, Pakistan, Turkey and Greece. The prospect of continued earmarks combined with further budget cuts would spell disaster for our security assistance agreements with base rights and access countries, for aid to the impoverished countries of Africa, Latin America, the Caribbean and East Asia, for continued support of the multilateral development banks, and much, much more. It is this very prospect of again facing - for a third year - stark choices among the foreign affairs priorities which remain after earmarking which the Administration objects to.

Q. El Salvador. The largest recipient of U.S. foreign assistance in Central America in recent years has been El Salvador, (about $2 billion since 1981) yet recent reports paint a discouraging picture of high unemployment, labor strife, and inadequate housing, among other serious problems. This has been a factor in the somewhat tenuous situation between President Duarte and the military. What are both the short and long-term assistance strategies for El Salvador so that positive results can be achieved?

A. El Salvador is the only democractic country in Central America which has been fighting a large-scale, Cuban and Nicaraguan-supported insurgency for the past seven years. Prior to the outbreak of war, El Salvador was the most prosperous country in the region. Its people have the reputation of being the most industrious. It is also the only nation in the region to have suffered a devasting earthquake during the same period. Between war damage and the earthquake, El Salvador has suffered between $2.5 and $3 billion in damages and economic losses, including capital flight. This is significantly more than all non-military U.S. assistance since 1979. In addition, El Salvador suffers from the same world market conditions which afflict other countries in the region, none of which are demonstrating encouraging economic growth. For positive results to be achieved, the war must end. For the war to end, the guerrillas - who can claim no more than six to ten percent popular support now - must accept democratic government, laying down their arms, accepting President Duarte's security guarantees, and entering the political process. Until they are willing to give up the military solution - which they are clearly not, unless they are allowed to maintain their armed forces and given a share of power without elections and in abrogation of the constitution of El Salvador - we must continue to support the democratic government, which is fully supported by the military services, in its self-defense.

The Administration's short and long-term assistance strategies are contained in the bipartisan Kissinger Commission Report.

46. Haiti. Haiti is striving to accomplish a successful transition to democracy after many years of dictatorial rule. What plans do you have to assist Haiti in this effort?

U.S. policy toward Haiti has one clear goal: to assist the Haitian people to make a successful and peaceful transition to working democracy. That means:

-- Democratic institutions and stable elected government responsive to the will and needs of the people;

-- Respect and protection for the rights and freedoms of individual Haitians; and

-- Material advancement through the operation of a free economy.

We support the democratization process begun by General Namphy and the National Council of Government. General Namphy has earned the confidence of the Haitian people and the international community by his commitment to build democratic institutions and hand over power to an elected successor on the second anniversary of the fall of the old regime. He has instituted a political calendar and kept it on schedule. He has put a stop to the systematic human rights abuses that characterized the old regime. He has encouraged the development of political parties and allowed the press to operate freely. He has ended high-level corruption and worked to institute honest government and sound economic policies.

In parallel with institutional and political progress, Haiti has launched a strategy of economic growth. Foreign financial assistance to the Haitian government to support its operations and to continue and expand development programs is essential, but more important in the short, medium and long-term is the invigoration of the private sector in Haiti. Haitians want and need jobs as much as they want and need the vote. Foreign investment will necessarily play a vital role. Given the proximity of the U.S. market the offshore assembly sector offers both a quick start-up and the chance to learn workplace skills with wider application later on. The U.S. and Haiti have recently concluded a textile agreement that offers Haiti new growth opportunities under the U.S. tariff code. PROMINEX Haiti began its operations in January to help encourage foreign investors to come to Haiti, plug into a well-developed business network and help put the hard-working, under-utilized Haitian workforce to good use. The U.S. government has placed a priority on the rapid development of the Haitian private economic sector.

Institution building, political reawakening and rapid economic growth in the private manufacturing sector do not lessen the need for long-range development projects to address the serious social and environmental problems Haiti faces. Together with other friendly nations and international institutions we have continued and expanded our major programs in primary education and literacy, public health, reforestation, and agriculture. About one-half of the U.S. assistance budget of 100 million dollars is devoted to long-range development projects. In addition, our food contributions nourish school children and nursing mothers directly or are sold to provide counterpart funds for Haitian government projects, mostly in rural development. The USAID program also works with 400 private voluntary agencies in pursuit of humanitarian, educational and long-term social and environmental improvements for Haiti.

Part of our assistance to the National Council of Government consists of non-lethal equipment and training for the armed forces of Haiti. Although a small fraction of our total assistance, we consider it important to give the Haitian armed forces the wherewithal to do their job. Their job is the same essential role that the armed forces play in all democratic countries: protecting the people's rights and aspirations. We intend to do what we can to enhance the Haitian armed forces' professionalism and effectiveness in this role.

Latin American Debt

47. The debt problem is the major issue facing the economies of most of the nations of Latin America. How does the US economic assistance program relate to the resolution of the debt crisis in the region?

A. The external debt of the countries of Latin America is now nearly $380 billion and debt service obligations absorb approximately one third of the export earnings of these economies. In order to enhance growth and promote a return to more normal access to external financing, the United States stresses the importance of economic policy reforms by the debtor countries themselves.

We support policy reform through our active participation in the international financial institutions, including the International Monetary Fund (IMF) and the World Bank (IBRD). The IMF currently has adjustment programs involving over $3.2 billion in medium-term credit in Mexico, Chile, Uruguay, Panama, Jamaica, and Bolivia, and is negotiating arrangements with Argentina and Ecuador. The World Bank made $4.8 billion worth of long-term loans in Latin America and the Caribbean in FY 1986, up from approximately $3.7 billion in FY 1985. The Inter-American Development Bank approved over $3 billion in loans to Latin America and the Caribbean in 1986.

Unlike the IMF and the World Bank, the IDB currently does not require macroeconomic adjustment as a condition to obtaining loans. The United States is insisting that the IDB link new lending to policy reforms.

Our bilateral assistance for the region is concentrated in Central America and the Caribbean. Although these countries are not the largest debtors, several have significant debt-related problems. A portion of our economic assistance to these countries is tied directly to their adopting macroeconomic policies that, inter alia, address the severe debt service problems many of these countries face. Supporting these governments efforts to put policies in place that stimulate growth and exports should increase these countries' abilities to meet their debt service obligations.

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